KRM22

# The Risk Based Performance Management Methodology

An introductory whitepaper by Andrew Smart

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# Purpose

The purpose of this paper is to introduce Risk-Based Performance Management (RBPM), a strategic management methodology that integrates strategy and risk management via risk appetite.

After an initial introduction, this paper will provide an overview of each of the three parts that make up the RBPM Methodology.

1. The Framework
2. The Process
3. The Tools

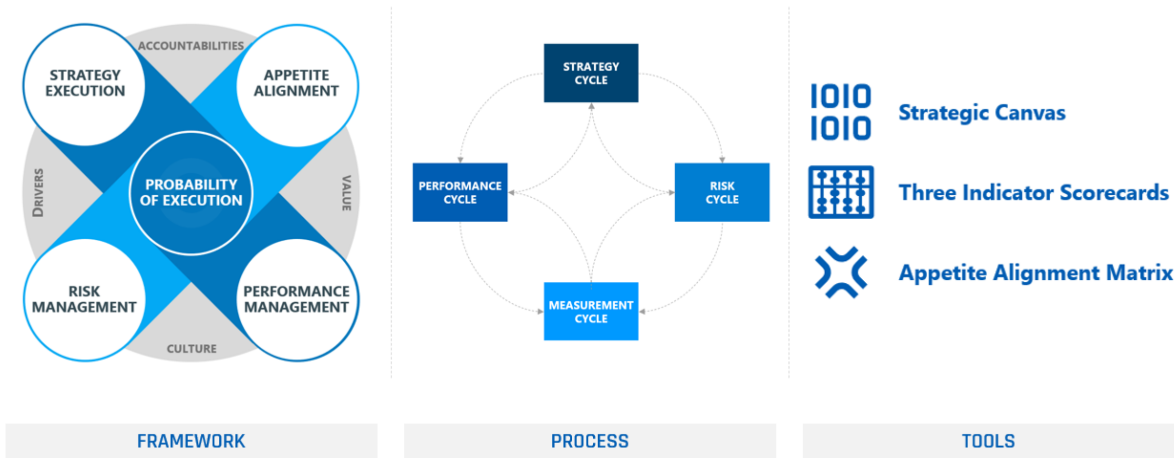


Figure 1 - Risk-Based Performance Management methodology

# Introduction

The Risk-Based Performance Management (RBPM) methodology emerged from a series of projects immediately after the 2008/09 financial crisis within the UK financial services industry. It was further refined during a 12-month academic research project involving 40 financial services businesses globally.

The main issue that surfaced in both client projects and the research project was many firms implemented enterprise and operational risk management in relative isolation from existing business strategy management processes.

Three key management challenges stood out:

1. Executives knocked off course as they are delivering strategy

   The first challenge mentioned by multiple CEOs, COOs and CTOs was one of frustration (and disbelief in some cases); that having invested in the implementation of enterprise performance management systems, balanced scorecards, KPI dashboards etc, they found that risks crystallised and knocked them entirely off course. They felt like they had been blindsided as KPIs glowed green, but a new risk-related crisis arrived to engulf their day and demand immediate attention. It was clear: the dashboards were missing something. That something, was risk.

2. Engaging the business in the risk management process

   The second challenge reported by CROs was the ongoing challenge of engaging the business in the risk management process and demonstrating the business value of risk management. Too often, the risk team were seen as an adjunct to the compliance team – and even a 'business prevention unit' – rather than a team focused on value creation and protection.

3. The obsession with metrics to measure everything

   The third challenge executives face, both on the business and risk management side, is the obsession with creating metrics to measure everything. Perhaps unsurprisingly, this has led to many firms having a vast number of measures but few insights and little decision-making information. As one executive stated in frustration, "we started down the KPI dashboard route so we could see the wood for the trees, but all we seem to be doing is planting a lot more trees!"

Risk-Based Performance Management methodology was created at a time when defining and managing strategy via strategic objectives and related KPIs was regarded as best practice. However, the core insight at the centre of the RBPM framework is that strategic objectives and KPIs are "necessary but not sufficient". To successfully execute strategy and sustainably deliver value

to a broad range of stakeholders, firms must also manage the risk and uncertainty inherent to their strategic choices and operational activities.

As a result, RBPM posits that alongside strategy and strategic objectives, firms also need to define their risk appetite, and integrate their risk management practices mitigating risk within those boundaries.

By applying RBPM, the focus of risk management best practice shifts, onto *taking the right risks and managing those within clear risk appetite boundaries*, rather than slavishly following a traditional approach predicated on minimising and eliminating *all* risk.

A little over ten years after RBPM's launch – and as countries and businesses slowly emerge into a post-COVID-19 landscape – it's tempting to conclude that everything has changed. But while much *has* changed over the last 18 months, the core challenge remains. For an increasing majority of firms, this is how to deliver their strategic objectives consistently and sustainably while operating in an environment of continuous turbulence; where change is fast and disruptive; where the future is highly uncertain and highly unpredictable; and where stakeholders seem to care as much about *how* results are achieved, as *what* results are achieved.

In an environment such as this, opportunities for growth and to build competitive advantage will inevitably emerge. At the same time, however, these new opportunities will invariably sit alongside a whole new set of risks that also need to be actively managed if firms are to maximise the probability of successfully executing the strategy.

Which is to say: firms with the most accurate and insightful management information will be the ones best placed to spot new growth opportunities early, and ahead of their competitors. Of course, to do this they will need to have the right management frameworks, processes, and culture in place to successfully identify and manage new, emerging risks. These firms – the 'risk winners' – will be best-placed to carve out for themselves a market position which is both defensible and profitable over the medium- to long-term.

In summary: to survive and thrive in the post-COVID-19 environment, we believe that firms have no alternative but to adopt an *integrated approach* to strategy and risk management. And, as we will demonstrate in the following chapters of this White Paper, we believe that the Risk-Based Performance Management framework is not just the best tool to achieve this, it is the *only* tool.

# The Risk-Based Performance Management (RBPM) methodology

The Risk-Based Performance Management methodology provides financial services and other firms with a strategic execution framework that integrates two core disciplines: Enterprise Performance Management (EPM) and Enterprise Risk Management (ERM), including risk appetite.

The methodology is structured into three parts:

- The RBPM Framework – the core management framework at the heart of the RBPM methodology designed to drive strategic execution.
- The RBPM Process – the core management processes that need to be executed to drive an increase in the probability of executing the strategy.
- The Toolkit – the key tools that support the implementation of the RBPM methodology and drive strategic execution.

# The RBPM Framework

The core management framework and organising construct at the heart of the RBPM methodology is the RBPM Framework which integrates two existing, and well-established management disciplines: Enterprise Performance Management and Enterprise Risk Management. Additionally, the RBPM framework includes four enablers: Drivers, Accountabilities, Value & Culture.

Figure 2 - Risk-Based Performance Management Framework

## Performance Management

Enterprise Performance Management is one of the core disciplines of the RBPM framework, and it is the discipline that directly drives the execution of strategy. At the highest level, Enterprise Performance Management is about distilling the firm's (or business unit's) strategy into deliverable strategic objectives, each with clear accountabilities and timelines. The delivery of these strategic objectives is achieved by:

1. Relentlessly executing business processes to the right quality level, everyday; and
2. Implementing responsive, adaptable, and changing initiatives to address performance gaps, as they emerge, or to build capabilities for the future.

## Risk Management

The second, equally important, core discipline within the RBPM framework is Enterprise Risk Management. This discipline is, as the name suggests, all about continuously identifying, managing and optimising the risks a firm is likely to face as it pursues its objectives, including risks related to processes and initiatives (AKA operational risks).

From a risk management perspective, we believe that many firms make the mistake of thinking that risk management equal risk elimination. It does not. Business is all about taking risk; therefore, we see the role of risk management within the Risk-Based Performance Management framework as optimising and aligning risk-taking to increase the probability of successfully delivering the Firm's strategic objectives.

To enable firms to optimise and align their risk-taking to strategy, they need to clearly articulate the amount and type of risk that they are willing to accept, and must take, to achieve their strategic objectives and therefore create Value for shareholders and other stakeholders."

Therefore, we see Risk appetite is the glue that binds together strategy and risk, and enables the full and proper integration of these two disciplines. Simply put, when strategy is executed without paying close attention to risk, specifically risk appetite, executives and senior managers are managing their firms sub optimally and with incomplete information. Through a enterprise performance management lens everything might appear to be positive and on-track; with KPIs glowing green. But what if the risks been taken to deliver that 'green 'performance are outside of the Firm's risk appetite? Maybe those risks are a time-bomb, ticking away and ready to blow the strategy to smithereens and force the executive and operational teams to react to a crisis rather than manage risk proactively.

## Enablers

While the two core disciplines within the RBPM framework provide the mechanical structure to deliver strategy and managing risk within appetite, the enablers within the RBPM framework really set the conditions for those two disciplines to be effective and efficient. There are four key enablers, drivers, accountabilities, culture, and results.

## Drivers

Business drivers, also known as success factors, are the handful of fundamental drivers of values that are related to a particular industry or business. Often these will be common to firms operating within a specific industry. For example, one of the business drivers for an investment bank is ensuring access to capital, so it can fund the business. Hence the emergence of the universal banking model – now abandoned because of 'ring-fencing' – where retail receipts were once deployed to fund investment banking activities.

Within the Risk-Based Performance Management framework, we use drivers to inform the definition of strategy and strategic objectives, as they provide the four extra dimensions, we need to define risk appetite and assess risks. The major benefit: this approach creates a common link between objectives, risk appetite definition and how risks are assessed.

## Accountabilities

To create clarity and focus, we have embedded the ARCI accountability model inside the Risk-Based Performance Management methodology. Depending on the sector you work in, you may have heard ARCI referred to as RACI or RACI charting. For the purposes of our framework, however, we use the acronym ARCI to emphasise the lead importance of the Accountable role:

- Accountable,
- Responsible,
- Consulted
- Informed.

### Accountable ("the decision-maker")

The individual who is ultimately accountable for this is the one who is ultimately accountable for the delivery of one or more items within the RBPM Framework. These could be an objective, a process, an initiative, a risk (or multiples thereof) and/or the need to ensure the effectiveness of controls. This person has "Yes/No" authority and only one accountable person can be assigned to an item. This person is, quite literally in some instances,' where the buck stops'.

#### Responsible ("the doers")

The individual (s) who are doing the work to deliver an Item within the RBPM framework – an objective(s), a process(s), an initiative (s), manage a risk(s) and/or ensure the effectiveness of a control(s). This is the person(s) who are focused on action and implementation – they are the 'doers'.

#### Consulted ("Keep in the loop")

This is the individual (s) who are to be consulted before a major decision is taken in relation to an item within the RBPM framework (Objective, Process, Initiative, Risk, and Control). There should be a two-way dialogue between the Accountable and Consult roles. The consult is the person(s) that you 'keep in the loop'.

#### Inform ("Keep in the picture")

This is the individual (s) who are to be informed after a major decision has been taken in relation to an item within the RBPM framework (Objective, Process, Initiative, Risk, and Control). The Inform is the person(s) that you 'keep in the picture'.

## Culture

Culture is often defined as "the way we do things around here", making it perhaps the ultimate strategy and risk management tool. Get the culture right, and objectives will more likely be achieved. And if objectives are achieved, then risk is managed. Automatically. Get the culture wrong, and failure is almost inevitable (even though terminal failure may well be preceded by a period of stunning financial success, as we have seen with many organisations that suffered catastrophic failure).

Within the Risk-Based Performance Management framework, we refer to a "Strategy-Focused, Risk-Based culture to describe the type of culture which has the dexterity to simultaneously remain focused on delivering a clear set of objectives, at the same time as scanning broadly to identify threats and opportunities which may help or hinder the achievement of those objectives.

People within such a culture operate within a clearly defined and communicated appetite for risk that is aligned to the corporate strategic goals.

We have defined seven distinct characteristics for a "Strategy-Focused, Risk-Based" culture. They are usually business which are:

1. Driven by a compelling vision.
2. Living by a clear set of values.
3. Led with integrity.

4. Aligning risk-taking to strategy.
5. Establishing clear accountabilities.
6. Engaging in high quality conversations.
7. Ensuring that incentives are aligned to appetite.

## Value

It may seem strange to include value as one of the enablers of the Risk-Based Performance Management methodology, but by doing so, we recognise the need to continue to deliver value so that the firm has the resources to remain viable and to execute its strategy sustainably.

But when we refer to value, we go beyond a simple set of financial numbers to include non-financial value. Not only that: we also go beyond the shareholders themselves to think about how we're going to create value for a much wider range of stakeholders; for instance shareholders, employees, customers, partners, and even the local community.

As an example, value creation can be represented by growing top-line revenue, growing EBITDA, and any number of other metrics. Equally, value creation may be increasing your brand reputation or the footprint of your community engagement, so that your firm maintains and expands its 'right to operate', or social license.

This broader definition of value recognises the differing priorities and expectations of today's broad stakeholder community, and it's something that every firms need to keep 'front-of-mind' in this day and age.

## Probability of Execution (PoE)

Central to the Risk-Based Performance Management framework is a powerful forward-looking metric, Probability of Execution.

The Probability of Execution is an aggregated, easy to understand percentage value showing the probability that a single objective, or group of objectives, will be executed by their due date based on the various data points which have a causal relationship to the objective(s). This includes linkages between objectives and aligned processes and initiatives and, of course, risks, risk events and controls at various levels within the RBPM framework.

Probability of Execution has proven to be a powerful, yet easy to understand, metric which provides powerful decision-making insights at all management levels, board, executive and operational levels. Additionally, it's a metric that can be easily communicated, and used to drive engagement with a wider stakeholder audience.

## RBPM Process

The second part of the Risk-Based Performance Management methodology is a management process that enables Firm's to systematically distil strategic goals into deliverable objectives, which are then operationalised via processes and initiatives. Data and measurement are embedded throughout the process and essential to generate insights and improve decision-making within continuous uncertainty.

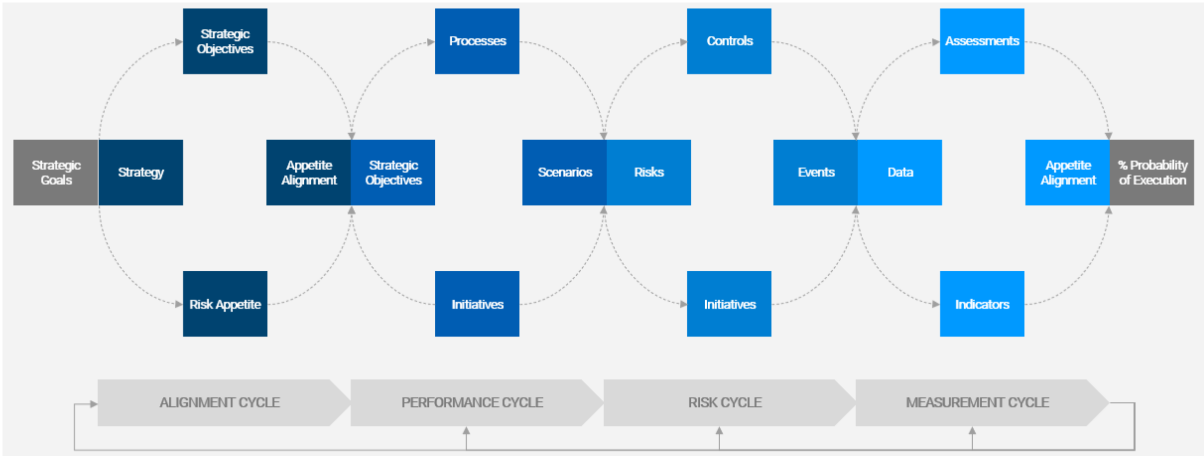


Figure 3 - RBPM Process

The RBPM Process comprises four interconnected cycles: the Strategy cycle, the Performance cycle, the Risk cycle, and the Measurement cycle.

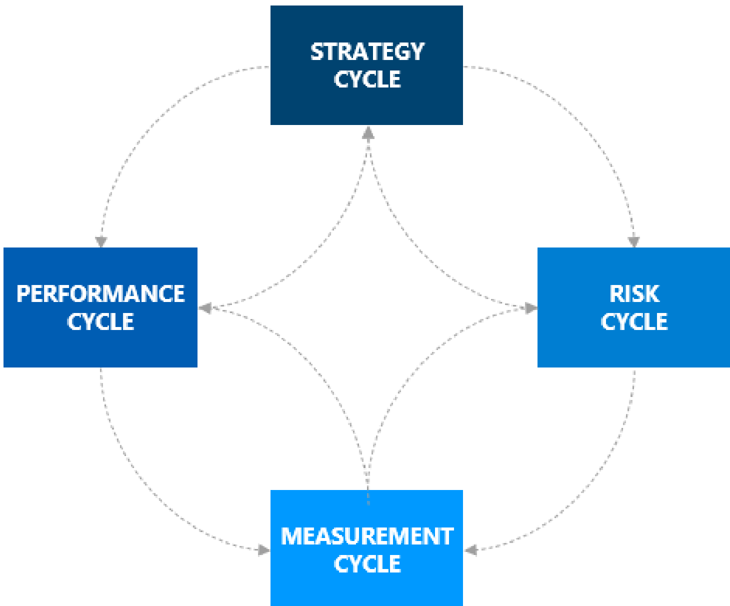

Figure 4 – The four interconnected cycles within the RBPM Process

## Strategy cycle

At its heart, the Risk-Based Performance Management approach is about sustainably delivering a set of strategic objectives by taking an acceptable (and known) amount of risk.

By deploying the RBPM methodology, firms develop a deep understanding and appreciation for the risk associated with their strategic goals and objectives and the level of risk appetite they need to set.

In the first cycle within the RBPM process, the Strategy cycle there are three steps:

1. Distilling the strategy into specific strategic objectives.
2. Defining risk appetite boundaries for each strategic objective and defining the overall risk appetite boundaries within which the Firm will operate.
3. Aligning the Firm's risk appetite and strategy, at a firm level and individual strategic objective level.

When firms are in the Strategy cycle, their executive team and other senior managers work to align their strategic ambitions – as expressed by a set of strategic objectives – to the acceptable level of risk-taking as defined by the board via risk appetite. This alignment process is typically an iterative process and one that creates a strong, shared understanding of the strategy, of the strategic objectives, and of what level of risk-taking is acceptable and required to achieve those objectives.

By developing a high level of alignment between the firm's strategic objectives and its risk appetite, the stage is set for the sustainable execution of the strategy.

## Performance cycle

Within the Performance cycle, the focus is very much on driving enterprise performance in order to deliver the strategic objectives. This is done by cascading strategic objectives to the correct level within the business and aligning the processes (what the firm or business unit does on a regular and ongoing basis) and change initiatives to the strategic objectives.

This cycle emphasises that strategic objectives are executed by doing the right things every day (processes). When performance gaps emerge, change initiatives address these gaps, either fixing current performance deficiencies or building capabilities within the organisation for the future.

Each objective must be supported by a set of aligned processes and, if there are performance gaps, initiatives.

Additionally, we also include within the Performance cycle scenarios which we use to continuously challenge the hypothesis about, and assumptions around, how we generate results and deliver our objectives. Scenarios also challenge executives and other senior managers to think actively and pre-emptively about what could go wrong, building resilience and identifying risks that need to be managed.

## Risk cycle

The focus of the Risk cycle is to manage the level of risk within clear risk appetite boundaries. There is a common misperception that risk management is really about minimising or eliminating risk. We strongly believe, however, that this is incorrect. Instead, we suggest that business seek to optimise risk-taking within clear risk appetite boundaries to maximise the probability of successfully achieving their objectives. In truth, it is not about taking no risks whatsoever: it is about taking the right risks and enough risk in order to achieve the strategic objectives.

Risk appetite has an important part to play in guiding firms as they seek to determine what the right risks and right level of risk taking are required to deliver the strategy.

Controls are a vital tool for managing and optimising risk-taking on a day-to-day basis where controls are the processes, policies, practices or other actions designed to affect control over a risk or risks (plural).

And, just as in the Performance cycle, initiatives are deployed to make changes within a firm's risk environment, addressing immediate risk issues or building capabilities to address future, emerging ones.

Finally, the Risk cycle includes Events or Risk Events. Events are used to capture risks when they materialise. As such, Events have an important role to play in the Risk cycle, and indeed in the overall RBPM framework because, when an event occurs, there is a range of data points generated which can improve the overall framework. Events data should also be included as part of regular management information reporting.

## Measurement cycle

There is a well-known management maxim: 'If you can't measure it, you can't manage it'. Measurement is, therefore, a crucial part of the Risk-Based Performance Management framework. While we depict measurement as the final cycle in the RBPM Process, in reality, it's embedded across the process.

And the starting point, of course, for all measurement is data. The volume of data that most businesses generate and aggregate is increasing by the day, and the value of high-quality data cannot be under-estimated. In practice, it can be worryingly easy to get overwhelmed by data, and many business report difficulties separating the 'signals' from the 'noise'.

With the RBPM framework, the emphasis is on the distilling the critical signals from the background noise within the data, in order to generate a concise measurement set which provides reliable insights that can be used for decision-making.

There are two primary measurement tools: Indicators and Assessments.

From a measurement perspective, the RBPM Framework helps to bring clarity and generate meaningful management insights through the use an integrated suite of indicators; Key Performance Indicators (KPIs), Key Risk Indicators (KRIs) and Key Control Indicators (KCIs).

Each of these indicator types provides different yet complimentary data to support management conversations and decision-making.

- KPIs are used to enable the organisation to monitor if they are on-track to achieve their strategic objectives
- KRIs are used to enable the organisation to monitor changes in its level of risk taking and risk profile.
- KCIs are used to enable the organisation to monitor changes in the effectiveness of their controls.

## Key Performance Indicators

Key Performance Indicators (KPIs) are linked to Objectives, Processes and Initiatives and provide performance insights which enables the Accountable person, and others in ARCI Accountability roles to understand the status, trends and whether any interventions are required. KPIs should enable those in the ARCI roles for an Objective, Process or Initiative to answer the question: "*Are we achieving our target level of performance*?"

## Key Risk Indicators

Key Risk Indicators are used to help define an organisation's risk profile and monitor changes in that profile. KRIs are used to answer the question: "*How our risk is profile changing and is it within our desired tolerance levels*?"

KRIs provide a base of data and trend information that informs the calculation of risk exposures and informs management conversations as to current level of risk taking, changes in risk-taking and about how much risk needs to be taken to successfully deliver to the strategic or operational objectives.

## Key Control Indicators

Key Control Indicators are indicators that are used by Firm's to monitor levels of control effectiveness relative to tolerances. KCIs play an important role is managing the execution of strategy and management of risk as they enable the effectiveness of controls to be monitored and proactively managed. This in turn helps create an environment within which decisions can be effectively implemented. A robust controls environment also helps create a 'no surprises' culture, thus enabling the organisation to remain focused on delivering their objectives while 'operating within appetite'. KCIs are used to answer the question: "*Are our internal controls effective? Are we, as an organisation 'in control*'?"

By being very clear about the different types of indicators in use within the organisation, being clear about their definitions, and being clear about the type of question that must be answered, it becomes possible to significantly improve the quality and clarity of the resulting management information and therefore the surrounding conversations.

# RBPM tools

The final part of the Risk-Based Performance Management methodology is a set of ‘tools ’which are designed to generate management information, generate insights and drive decision-making.

There are three key tools that are unique to, and designed for the Risk-Based Performance Management methodology;

1. The Strategy & Risk Canvas
2. The Appetite Alignment Matrix
3. Three Indicator Scorecards

There are also a number of tools that we include in the RBPM toolkit that have been drawn from other methodologies to support a RBPM implementation.

1. Four Quadrant Risk Map
2. Process Alignment Matrix
3. Initiative Alignment Matrix
4. Accountabilities Matrix

## The Strategy & Risk Canvas

The Strategy & Risk Canvas is designed to visualise a firm's strategy and risks using a twelve block canvas which shows how value is created and long-term strategic goals delivered. It shows the linkage from values (and culture) through to value and provides status information on;

- Risks (R)
- Appetite Alignment (A)
- Performance (P)
- % Probably of Execution
- Trend indicator related to changes in the % Probably of Execution

| VALUES | PEOPLE | PROCESSES | STAKEHOLDERS | VALUE | STRATEGIC GOALS |
|---|---|---|---|---|---|
| Integrity<br>R A P 75%<br><br>Respect<br>R A P 85%<br><br>Individual Accountabilities<br>R A P 75%<br><br>Continuous Learning<br>R A P 75% | Identify, develop and retain top talent<br>R A P 85%<br><br>Increase leadership gender diversity<br>R A P 35%<br><br>**TECHNOLOGY**<br>Build a world class IT infrastructure & Team<br>R A P 55%<br><br>Build Market Leading Algo/AI Infrastructure<br>R A P 70%<br><br>**ECOSYSTEM**<br>Partner with key technology 3rd parties<br>R A P 85% | Algo Trading lifecycle<br>R A P 95%<br><br>R&D<br>R A P 70%<br><br>Margin Management<br>R A P 85%<br><br>**INITATIVES**<br>Implement new Algo platform<br>R A P 85%<br><br>Trader Performance Analytics platform<br>R A P 25% | Traders & Quants platform of choice<br>R A P 65%<br><br>Empowering employees to grow<br>R A P 80%<br><br>Consistent market out performance<br>R A P 85%<br><br>Leading UK fintech investment oppty<br>R A P 95% | Grow Revenues by 25% above key peers<br>R A P 85%<br><br>Control Costs in line with rev. growth<br>R A P 65%<br><br>Over invest in emerging technologies<br>R A P 85% | Be Traders & Quants employer of choice<br>R A P 85%<br><br>Be the No. 1 trading house within 3 years<br>R A P 95%<br><br>IPO the business in 5 years<br>R A P 85% |
| **COSTS** | | **REVENUE** | | **RESERVES** | |
| Fixed Costs<br>$xxM / 5% | Fees & Commissions<br>$xxM / 25% | Algo Revenue<br>$xxM / 35% | Total Revenue<br>$xxM / 32% | Regulatory Capital<br>$xxM / 5% | Total Capital Reserves<br>$xxM / 20% |

Figure 5 - Strategy & Risk Canvas

The Strategy & Risk Canvas is made up of a twelve block canvas. The top nine blocks of the canvas are used to show the causal relationships between key intangibles, and how that is converted into tangible value. This creates a clear line of sight from the firm's value (and culture) through to creating financial and non-financial value and delivering long term strategic goals. The bottom

three blocks are used to display more traditional, core financial numbers; costs, revenue and reserves.

Bringing together the firm's strategic objectives, with a view of risk, appetite alignment and performance, and core financial numbers makes the Strategy & Risk Canvas a powerful management reporting dashboard.

## The Appetite Alignment Matrix

The Appetite Alignment Matrix was designed to provide a simple, visual way of understanding alignment between the level of risk taking compared to the risk appetite i.e is the firm taking too much or too little risk to deliver the firms strategic objectives.

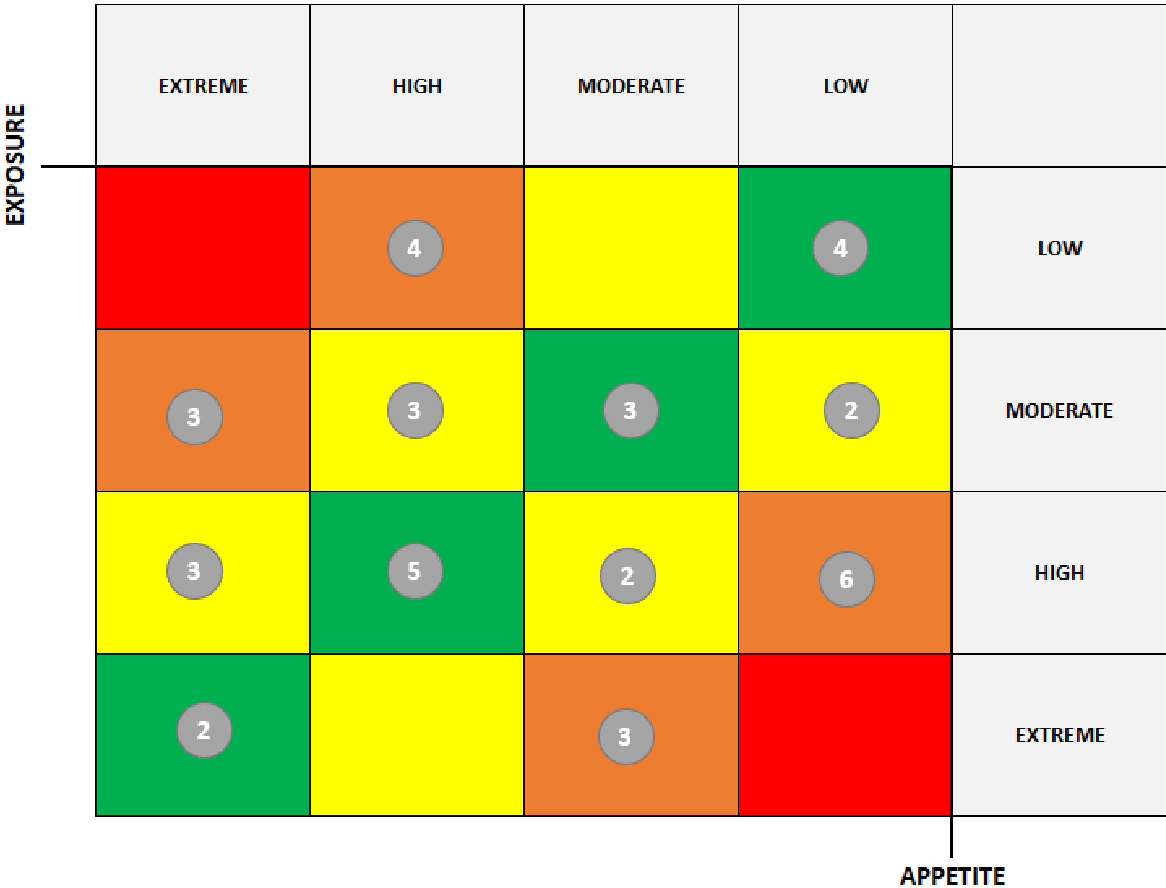


Figure 6 - Appetite Alignment Matrix

The Appetite Alignment Matrix changes the management conversation about risk; pivoting the discussion from being one about minimising or eliminating risk, to one about the right level of risk that the firm must take on if it is to deliver its strategic objectives.

The Appetite Alignment Matrix plots appetite along the horizontal (X) axis and risk exposure on the vertical (Y) axis. The diagonal cells from bottom left to top right show the intersection between levels of appetite and levels of exposure.

The Appetite Alignment Matrix revolves around three zones.

1. Optimal (Aligned) zone – the green, diagonal cells from bottom left to top right. This is the optimal zone and risks in this zone are aligned; risk exposure is aligned to the risk appetite.
2. Over-exposed zone – this is the zone above the green, diagonal cells. Risks within this zone have risk exposures which are greater than risk appetite. In other words, the firm is taking on too much risk to try and deliver the strategy.
3. Under-exposed zone – this is the zone below the green, diagonal cells. Risks within this zone have risk exposures which are less than risk appetite, which is to say that the firm is not taking enough risk to have a chance of delivering the strategy.

In addition to the default, single quadrant, Appetite Alignment Matrix (*Figure 6 above*), for a more sophistic and advanced implementation of the Two Quadrant Appetite Alignment Matrix, as shown in figure 7 below. This style of Appetite Alignment Matrix, is designed to include both downside (default) and upside risks.

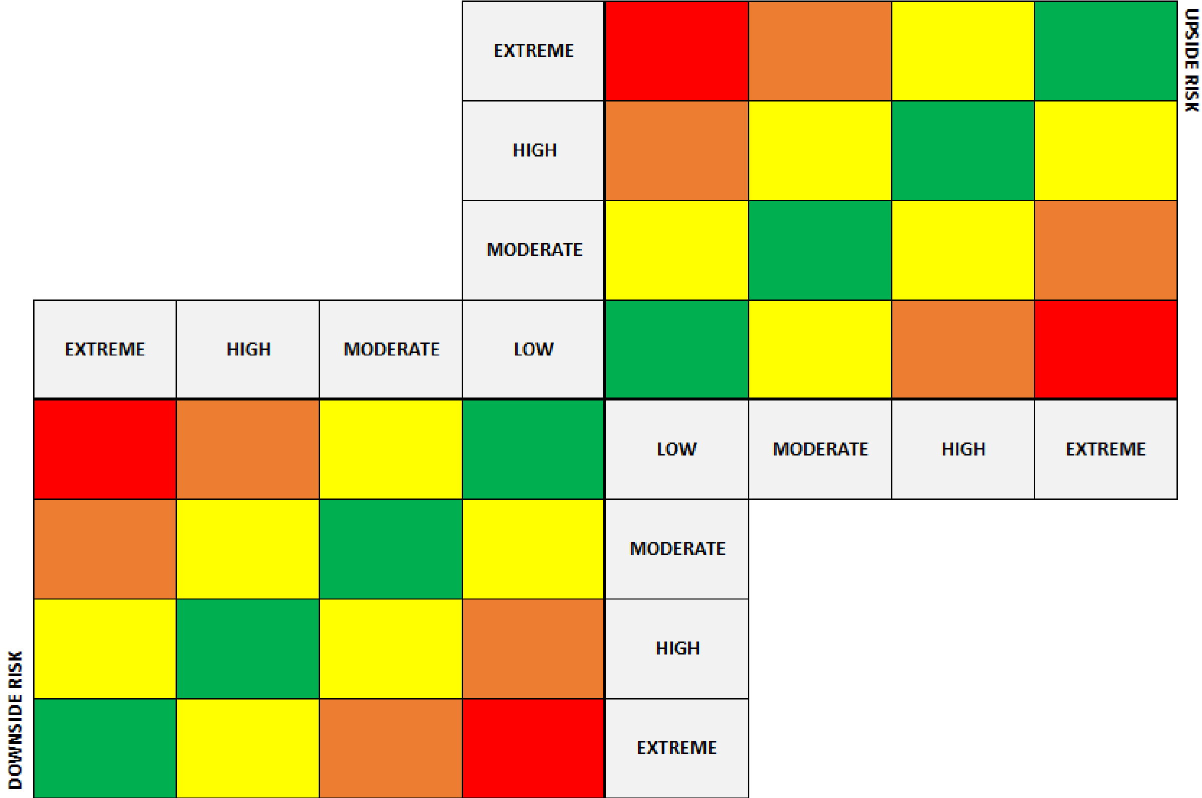


Figure 7 - Two Quadrant Appetite Alignment Matrix

## Three Indicator Scorecards

With the Risk-Based Performance Management methodology, we use three ‘scorecards ’to visualise strategy and risk management data, inform the management conversation and improve decision-making. The three scorecards are:

- Performance Scorecard
- Risk Scorecard
- Control Scorecard

### Performance Scorecard

The Performance Scorecard revolves around objectives and KPIs and is designed to provide a detailed view of the firm’s performance against its objectives. Alongside objectives and KPIs, the Performance Scorecard typically includes the Accountable person for each Objective, Risk Exposure status, Appetite Alignment status, and a breakdown of related KPIs, KRIs and KCIs

scores. The Performance Scorecard can be used independently of, or in conjunction with, the Strategy & Risk Canvas.

For an operational view of performance, Performance Scorecards can also be used for Processes and Initiatives performance, replacing objectives with processes and initiatives respectively.

### Risk Scorecard

The second indicator scorecard within the Risk-Based Performance Management toolkit, is the Risk Scorecard, which is based around risks and KRIs, and is designed to provide a detailed view of the firms risk profile.

Starting with risks and its related KRIs, the Risk Scorecard also includes the accountable person for each risk, Appetite Alignment status, Aggregated Risk Score, Current Risk Assessment status, Current Risk Exposure (in currency values), Key Risk Indicators (KRIs) and Key Control Indicator (KCI) scores. Just like Performance Scorecards, Risk Scorecards can be used independently of, or in conjunction with, the Strategy & Risk Canvas.

### Control Scorecard

The final indicator scorecard is the Control Scorecard. Centred around Controls and Key Control Indicators (KCIs), the Control Scorecard provides a detailed view of controls, their performance and their effectiveness. They bring focus to, and inform, the management's conversation and decision-making related to the controls environment, as well as its effectiveness within the firm. Again, the Control Scorecard can be used independently of, or in conjunction with, the Strategy & Risk Canvas. It is also complementary to the Risk Scorecard.

Each of the three scorecards above has an important role to play when it comes to informing the management conversation and decision-making around strategy execution and risk management. Individually, they speak to, and align with, the three lines of defence model.

# Conclusion

The Risk-Based Performance Management (RBPM) methodology emerged immediately after the 2008/09 Financial crisis because of client projects and an academy study involving more than 40 financial services firms.

The post-financial crisis era presented several challenges to firms, including meeting demands from regulators to improve their approaches to risk management. Firms also invested heavily in implementation of systems and processes to drive growth and strategic execution, with limited positive results.

As we slowly emerge into a post-COVID-19 world, it is tempting to believe that everything has changed. However, while much has changed over the last 18 months, the core challenge for many firms remains; how to deliver their strategic objectives consistently and sustainably while operating in an environment of continuous turbulence, where change is fast and disruptive, where the future is highly uncertain and highly unpredictable and where stakeholders care as much about how results were achieved, as what results were achieved.

Within this environment, opportunities for growth and to build competitive advantage will invariably emerge; however, alongside these new opportunities, there will invariably be a set of new risks that need to be managed to maximise the probability of successfully executing the strategy.

Firms with the right management information will be best placed to spot new growth opportunities early, ahead of competitors. Of course, they will also need the right management frameworks, processes, and culture in place to successfully manage new, emerging risks. These firms will be well placed to build a position in the market which is defendable and profitable over the long-term.

Therefore, to survive and thrive in the post-COVID-19 environment, we believe firms must adopt an integrated approach to strategy and risk management, and this is where the Risk-Based Performance Management framework will prove invaluable.

# About the Author

Andrew has 20 years plus experience delivering Enterprise Performance Management (EPM), Enterprise Risk Management (ERM), Operational Risk Management (ORM) and related Management Information solutions; both in technology and consultancy roles.

Andrew is the architect of the Risk-Based Performance Management methodology, a strategy execution methodology that enables firms to execute strategy while operating within risk appetite boundaries, optimising risk-taking to improve the probability of delivering the firm's strategic objectives.

In 2013, Palgrave Macmillan published Andrew's first book; Risk-Based Performance Management: Integrating Strategy and Risk Management. Further information about the Risk-Based Performance Management methodology can be found at www.getRBPM.com

Andrew is currently employed by KRM22 (www.krm22.com), a technology business which provides risk management solutions to capital market companies that reduce the cost and complexity of risk management. Andrew works in Product Management where he leads on the development and commercialisation of an Integrated Risk Management solution, the Risk Cockpit.

In addition to his Product Management responsibilities, Andrew is also KRM22 Chief Risk Officer and leading the deployment of the Risk Cockpit internally within KRM22.

# About KRM22

KRM22 is a specialist software investment business led by industry experts, with an investment focus on risk management software and technology predominantly for capital markets. KRM22 envisions a world in which capital market organisations operate at an optimal threshold of risk to improve alpha and drive increasing profits. It is our mission to deliver a Global Risk Platform that brings increased visibility of risks to CEOs and senior executives while simultaneously lowering the cost of risk management systems to capital market organisations.

# About the FEAS

The Federation of Euro-Asian Stock Exchanges (FEAS) was established on 16 May 1995 with 12 founding members. The purpose of the Federation is to contribute to the cooperation, development, support and promotion of capital markets in the Euro-Asian Region (i.e. Europe, Asia and the Mediterranean Basin). Currently there are 39 members. For information about FEAS, its members and activities, please visit www.feas.org