

Risk Management Made Simple

Welcome to the FREE Online Newsletter about **Systematic Risk Management**

for **executives** and **management professionals**

from **Risk Wise Inc.** and **Diana Del Bel Belluz**

November/December 2009

FEATURE ARTICLE: 3 Low Cost Ways to Enhance Your Risk Management

By Diana Del Bel Belluz, M.A.Sc., P.Eng.

This month I had the honour of speaking about Enterprise Risk Management at the **Ontario Hospital Association's HealthAchieve** conference. In my talk I shared research findings that demonstrate **companies typically only achieve about 63% of their strategies' potential**¹.

To quantify the strategy-to-performance gap, researchers from Marakon Associates and the Economist Intelligence Unit surveyed 197 companies world-wide with sales in excess of \$500M. They assessed actual performance versus the financial forecast in the strategic plan. The study revealed that **organizations under perform by 37% due to defects and breakdowns in planning and execution processes** (Figure 1).

I have shared this research with many audiences and found that **the root causes of the strategy-to-performance gap are common across all sectors** (corporate, government and nonprofit).

If you plugged the leaks that drain away your performance, how much additional value could your organization generate? Imagine 37% more profit or 37% more services delivered or 37% more of whatever value your organization aims to deliver.

After my talk, a delegate asked, **"Where are the biggest opportunities to close the 37% performance gap? Where is the 'low hanging fruit'?"**

It was such a great question, I decided to share the answer with all the readers of this E-Zine. **First, let's distinguish between what is meant by enterprise and operational risks.**

At the enterprise level, where the focus is the development of corporate strategies, executives set the tone for performance and risk management by:

- **Setting the destination and direction** of the organization, i.e., clear corporate goals and strategies
- **Defining standards of behaviour** through personal leadership that embodies the organization's desired culture, policies and risk appetite which together guide choices about which opportunities to pursue and which threats to avoid in the pursuit of enterprise goals
- **Providing governance, oversight, and assurance**

At the operational level, where day-to-day business takes place, managers are focused on executing corporate strategies and manage *operational* risks by:

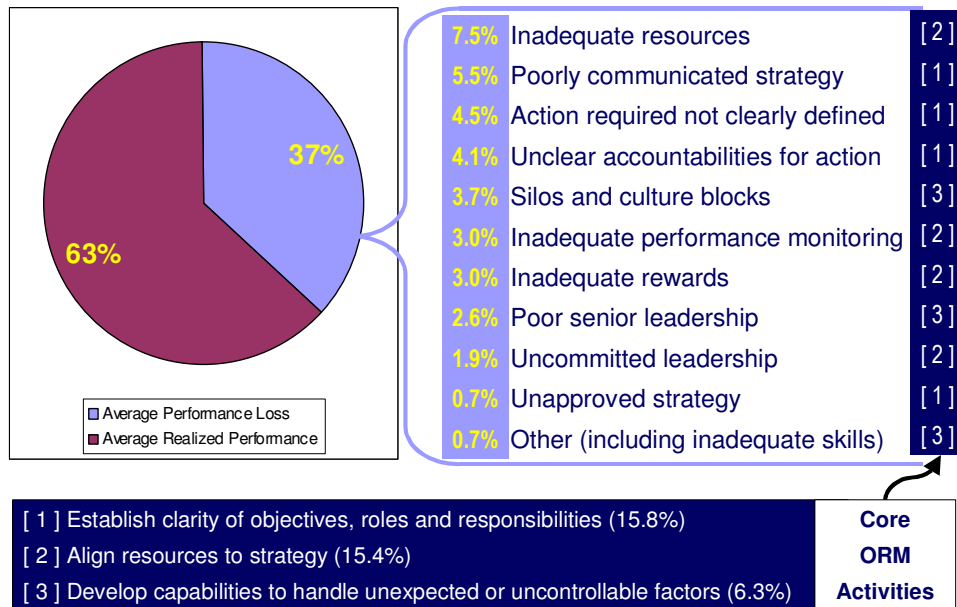
- **Establishing clarity** around objectives, roles, & responsibilities, i.e., *operationalizing* enterprise goals
- **Aligning resources** to deliver excellent performance
- Developing **capabilities to handle unexpected** or uncontrollable factors

Here are three places where you can find 'low hanging fruit' at the *enterprise* and *operational* levels.

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¹ "Turning Great Strategy into Great Performance," Michael C. Mankins and Richard Steele, *Harvard Business Review*, July-August, 2005.

Figure 1: Where the performance goes



Adapted from *Turning Great Strategy into Great Performance*, Mankins and Steele, Harvard Business Review August 2005

OPPORTUNITY #1: Optimize ERM Resources.

To identify low hanging fruit at the ERM level, ferret out risks that are over-managed. Over-managed risks represent wasted resources. By reallocating resources from over-managed risks to under-managed risks you can significantly **reduce your risk exposure** and **improve the efficiency of your risk management resources.**

In the **March 2008** issue, I shared a simple tool developed by *Risk Wise* to assess the effectiveness of risk management strategies. **The Risk Management Effectiveness Map enables you to identify both over-and under-managed risks.**

A common reason that a risk can be over-managed is that people in different parts of the organization are independently doing something to manage the risk. But due to lack of communication across silos, they end up duplicating efforts or doing things that actually cancel each other out. **Using a team approach in the risk assessment process helps to coordinate risk management efforts and streamline resources.**

By analyzing the effectiveness of your risk management efforts on a regular basis, you will have the information you need to **squeeze a little more out of your existing envelope of resources** by rebalancing between over-managed and under-managed risks.

ASK YOURSELF: What evidence does my organization have that risk management resources are being optimally allocated?

OPPORTUNITY #2: Clarify Strategy and Objectives.

The secret to effective performance (and risk) management is the ongoing alignment of strategy developed at the enterprise level with execution at the

operational level. Communication is the key tool to achieve alignment between the enterprise and operational levels.

According to my calculations (shown in the box at the bottom of Figure 1), **you can improve your total performance by 15.8% simply by doing some targeted talking.** Specifically, by communicating effectively about strategy, objectives, roles and responsibilities a management team can **eliminate nearly half of the strategy-to-performance gap.**

By communication I mean dialogue beyond the initial unveiling of strategic plans. **Effective communication requires systematic follow-up** to ensure people understand who is accountable for what and what specific actions are required of them. It also means **ongoing communication to ensure that your people don't stray off course** from corporate strategy, pulled by the compelling forces of day-to-day problems.

ASK YOURSELF: What evidence does my organization have that managers communicate with a frequency and effectiveness that ensures clarity in the minds of people throughout the organization about our corporate goals and strategies, operational objectives, and individual accountabilities for performance and risk management?

OPPORTUNITY #3: Optimize Operational Processes.

One way to identify operational risks is to systematically examine the value chain of core business processes. In my practice, I have observed that **the search for risks in a process invariably also reveals ways to run it**

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more effectively and efficiently. Yet few organizations systematically analyze and optimize their processes.

At the HealthAchieve conference, there was a fantastic session that featured health sector innovation. Many of the innovations involved the application of **Lean**² **techniques to streamline business processes and generate significant performance improvements in their operations**, e.g., increasing the volume of procedures and services thereby reducing wait-times. Other than taking staff time to learn and apply Lean, **the improvements were generated without any extra cost-burden on the organization.**

Like most organizations, they discovered that their **processes are not designed. Instead, they evolve in response to circumstances** that exist when the process is first implemented with the occasional work around to respond to new requirements that arise. **Over time, many of those circumstances and requirements disappear but the process is not updated.**

Consequently, **the process continues to include steps that no longer serve a useful purpose** or that occur in a clumsy and inefficient sequence. **As a result, most organizations have lots of waste in their processes.**

² The core idea of Lean is to maximize customer value while minimizing waste. A lean organization focuses its key processes to continuously create more value for customers with less resources.

Toyota is well known for pioneering Lean techniques to **continuously align their processes to customer value.** At HealthAchieve, a team from **St. Joseph's Healthcare in Hamilton** shared how they are working with **Toyota Canada** to successfully apply Lean thinking in a healthcare setting. **Kudos to the folks at St. Joe's for recognizing they can learn from another sector!**

Taking the time to learn and apply a process improvement discipline to your core business processes will help you uncover hidden risks and eliminate waste. **If you don't analyze your processes, you run the risk of letting inefficiencies build up and become a massive drain on your performance** and your ability to achieve operational and strategic objectives.

ASK YOURSELF: Are our key business processes aligned with strategic objectives and our current business environment?

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The Risk Wise bottom line... Strong risk management addresses many of the root causes of performance loss. **Are you taking advantage of these simple, low-cost analysis and communication techniques to boost your organization's performance?**

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To explore how you can enhance your risk management performance without blowing your budget, contact **Diana Del Bel Belluz** at **Risk Wise:** (416) 214.7598 Diana.Belluz@riskwise.ca

About Us



Diana Del Bel Belluz
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Diana Del Bel Belluz, M.A.Sc., P.Eng., is a risk management advisor who **helps executives in complex organizations to implement systematic and sustainable risk management practices.** Since 1990, Diana has been doing **leading-edge risk work** for companies in a wide range of industries and government organizations.

In addition, Diana **advances the field of risk management** by **teaching** university courses and management training seminars, **speaking** at conferences and **authoring** publications on a wide range of risk management topics.

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