

Driving Value from Risk Management to Influence Business Strategy

A background image for the Business Strategy section. It shows a chessboard with several pieces, including a king and a queen, in the foreground. In the background, there are silhouettes of people in business attire, with a bright light source creating a lens flare effect. The overall color scheme is blue and white.

Business strategy and risk management occupy two separate spaces in most organizations. Business strategy exists at an enterprise or executive level. The movers and shakers of business strategy are the executive team, board members, and senior stakeholders. They are focused on business objectives and outcomes for the enterprise as a whole.

BUSINESS STRATEGY

RISK MANAGEMENT

A background image for the Risk Management section. It shows a person in a dark suit looking out of a window with binoculars. The image is slightly blurred, with a bright light source creating a lens flare effect. The overall color scheme is blue and white.

Risk management, on the other hand, often functions at a tactical and operational level. Risk professionals systematically monitor, assess, and manage the risks associated with day-to-day business activities. This includes tasks such as establishing plans, evaluating controls, and identifying process dependencies. Key performance indicators (KPIs) and key risk indicators (KRIs) deliver insight and inform tactics in this sphere.

The KPIs and KRIs generated by risk management typically do not resonate with the executives who drive business strategy. These metrics do not appear to be relevant to the business objectives and outcomes that are business leaders' top priority. Consequently, a very real chasm exists between the two groups – but it is a chasm that needs to be bridged. Risk management professionals must demonstrate to business leaders the value of the information they possess for one primary reason: the long-term growth and good of the business. **Risk management today, bolstered by advances in technology, contains vital data that can inform executive decision-making to support business strategy.**

The question then becomes, how can risk management professionals use insight at an operational level to drive value at an enterprise level?

OPERATIONAL LEVEL

Risk Management
KPIs and KRIs

Examples:

- Number of remaining open issues
- Percentage of risk assessments completed
- Number of new processes created and implemented
- Percentage of controls operating effectively
- Number of compliance infractions in the past year
- Percentage of key risk indicators outside of tolerance
- Project status by criticality in major business units
- Employee turnover per quarter

How can
operational
insights drive
enterprise-
level value?

ENTERPRISE LEVEL

Business Metrics and
Strategic Objectives

Examples:

- Improve operating margin
- Protect customer data and prevent cyber attacks
- Deliver all customer products on time
- Reduce R&D cycle times significantly
- Double revenue over the next 24 months
- Significantly increase new account acquisitions
- Effectively manage internal travel expenses
- Improve employee retention and reduce turnover

Four Steps to Influence Business Strategy

The challenge for risk professionals is that commonly used metrics at an operational level are often not well understood by senior stakeholder audience(s), nor do they succeed in influencing decision making at an executive level. The C-suite and stakeholders who are responsible for driving business strategies simply do not see a correlation between risk-oriented data and insights, and the strategic objectives that are their primary concern each day. The burden, then, lies on risk management professionals to connect risk management to business strategy. To that end, risk management professionals need to take four steps.



1 **Understand Enterprise-level Objectives, Outcomes, and Metrics**

The first step for risk management professionals begins with fully understanding enterprise-level objectives, outcomes, and metrics. Objectives might include increasing revenue, launching a new product, providing customer support in a timelier fashion, and so forth. These objectives, which are strategic in nature, are broken down into specific business outcomes such as increasing production by a certain percentage or publishing a set number of upgrades or enhancements each year. The business outcomes, in their own turn, are tracked and measured using business metrics.

Executives and stakeholders use business metrics to inform their strategic decisions with the goal of driving the desired business outcomes and – ultimately – achieving the enterprise-level objectives. For example, inventory turnover (a business metric) informs the decision of how to optimize investment in inventory (a business outcome), which can lead to improved profit margins (a business objective). Or, again, automated production line output (a business metric) informs the decision of how many production line employees are needed for optimal staffing (a business outcome), helping a manufacturer strengthen their financial position (a business objective).

Risk management professionals must become familiar with the business metrics that are in use and the outcomes and objectives they support in order to proceed with the next step: taking the risk data at an operational level and bringing it to bear on objectives and outcomes tied to business strategies.

2 **Correlate Business Objectives with Risk Management Activities**

With a firm understanding of business objectives, outcomes, and metrics, risk management professionals can assess how enterprise-level concerns correlate to what risk management is doing on a day-to-day basis. It must be emphasized that this requires a distinct shift in perspective, since activities such as conducting risk assessments, establishing controls to mitigate the impact of risks, and assessing residual risk – while incredibly important for risk managers – do not directly tie into the enterprise's business objectives and strategies.

Here is the key to making meaningful correlations: risk management professionals have at their fingertips an information foundation that encompasses data about the enterprise's business units, functional areas, products, services, processes, and dependencies. This information foundation lays out how the business works, identifies roles and responsibilities, and delineates relationships and accountability. It also gives risk management personnel the ability to aggregate, visualize, and assess data contextually.

By coupling the data in the information foundation with knowledge of business objectives and outcomes, risk management personnel can identify where they can provide value. For example, production line performance (a business outcome) is dependent upon regular equipment diagnostics and maintenance – an area that can be readily tracked and reported on by the risk management area. With a correlation established between a risk management activity at an operational level and a business outcome, risk management personnel have the opportunity to bring a new level of value to the enterprise.

3 *Establish Leading Key Indicators that Tie to Business Outcomes*

Once a correlation between business strategy and operational risk metrics has been identified, risk management personnel need to establish a leading KRI that has a direct relationship with the desired business outcome. Typically, key indicators tend to be lagging in nature, such as tracking the number of cyber attacks that happened over the past quarter. This is useful information, but it is not effective in influencing business metrics or business outcomes. A leading indicator, in contrast, is one which provides advance notice of a situation before a risk event is experienced so that action can be taken to avoid or mitigate the impact of the event.

To reference an earlier example, a KRI that tracks when equipment diagnostics and maintenance have taken place can be used to send a proactive alert that certain equipment is due for service. This enables the maintenance organization to take action to avoid a disruption on the production line, benefiting production, customer service, and revenue.

4 *Present Metrics that Support Decision-Making*

It is not enough to correlate operational and enterprise-level matters and establish a leading KRI that ties to a business outcome. Risk management professionals must also present these metrics in such a way that it supports decision-making by the target audience. In particular, risk metrics and KRIs need to be presented in their business context and in a manner that drives action.

When a metric is supported and bolstered by the appropriate context, the intended audience listens. Risk management professionals must be able to show to the C-suite or board of directors why the risk metric or KRI is important in terms of its relationship to a business outcome and its relevance to a business decision. In essence, metrics need to be presented not as numbers, but as stories.

Presented in context as a story, a KRI should then drive action. When a risk metric or KRI indicates that action must be taken to avoid loss or achieve gain, it becomes valuable to business leaders and decisionmakers.





An Example of Providing Value to Business Strategies

The following example clearly demonstrates the above steps in action.

The risk management team at a pharmaceutical company takes the time to delve into enterprise-level objectives. One of those objectives is to increase profit. To achieve this end, it is essential that research and development personnel operate efficiently and within budget (a business outcome). However, research and development processes, which are supported by enterprise technology, have failed to keep pace due to long-standing legacy systems, resulting in slow development and lost revenue through increasing project costs.

The risk management team has a KRI in place that tracks the core system and technology updates each quarter. This, however, is a lagging indicator, not a leading indicator. The risk management team wants to identify a new KRI that will be of value to the Chief Technology Officer (CTO) to further the business strategy of increasing profit by improving the efficiency and cost of research and development projects.

After further research, the risk management team discovers that research and development teams in South Carolina support 75% of the company's research and development efforts. If research and development programs can be improved at this geographic location, it will go far to achieving the business objective of increasing profit.

The risk management team takes this information and makes the following deduction:

- Research and development processes are failing to keep pace due to legacy technology.
- A primary cause for the existence of long-standing legacy systems is a lack of understanding as to where investment should be focused for new technology.
- We know which core systems and technology are more critical in supporting operational processes.
- We can track the percentage of core systems and technology which have not been upgraded or replaced for critical operational processes.
- We can therefore provide the CTO with the core systems and technology which require investment to upgrade or replace to significantly improve research and development in the South Carolina facility.

Now, the risk management team can drive value to chief executives. They introduce to the CTO the new KRI of core systems and technology which require upgrades or replacement, further tying this metric to critical and significant operational processes. Then, by establishing context to relate a critical operational process (e.g., research and development) to organizational location (e.g., South Carolina), the risk management team places the metric in the context of a specific action which can influence a desired business outcome. The CTO can now identify the investment and resources required to update or replace the systems and technology in South Carolina. He or she is thereby empowered to make decisions about specific actions to improve business outcomes and achieve business objectives.

Sustainable Value at an Enterprise Level

Driving value related to business strategy requires both time and commitment on the part of risk management professionals. However, once that value is proven, target audiences will begin to rely on and request KPIs and KRIs to support decision-making. They will understand the relationships between risk metrics and business outcomes. With this deeper understanding, risk management will no longer be viewed solely as an operational risk mitigation function: it will also be seen as a strategic function that contributes vital intelligence necessary for the long-term growth of the enterprise.

To learn more about how Fusion can help your program, visit fusionrm.com/demo.



US: +1 (847) 632-1002
UK: +44 (0) 20 3884 3538
[Fusionrm.com](https://fusionrm.com)
Choose Success. Choose Fusion.



Alex Toews is a Chicago-based Risk Solutions Manager within Fusion Risk Management's product management and solutions practice. With extensive experience working across different industry verticals, Alex's professional experience has included driving methodology and program framework creation for many risk-based competencies such as: enterprise risk, operational risk, vendor risk, compliance, internal audit, corporate governance, regulatory requirements/expectations, and program/project management.