



Board, CEO & CAE
Governance Workshop 2017

IA
The Institute of
Internal Auditors

Key Risk and Performance
Indicators

Larry L. Baker
16 May 2017



Today's Session Goals

- Maintaining a clear focus on achieving key objectives
- Value of measuring performance and managing risk to objectives
- Synergies between performance measurement, ERM and internal auditing
- Building a sustainable KPI Management Process
- Highlighting KPIs and KRIs in an Executive Dashboard

AFIIA 2017

ACHIEVEMENT OF "OBJECTIVES" MATTERS

Focus on achieving key objectives:

- **Internal Audit** ...
 - Helps an organization accomplish its objectives
- **Internal Control** ...
 - Increases the likelihood of achieving objectives
- **Enterprise Risk Management** ...
 - Provides reasonable assurance regarding the achievement of objectives
- **Performance Management** ...
 - Creates transparency of performance toward achieving objectives

The Challenge – Our Opportunity

I simplify it as follows:

➤ **“Somebody, somewhere, knows something.”**

So, we must:

➤ **“Get the right information, to the right people, at the right time”**

Challenge Met – Real Stories

Real Stories at Real Companies:

- Fortune 500 Motorcycle Manufacture – Core Customers
- Fortune 200 Railroad Company – Derailment
- Fortune 1,000 Drilling Company – Competitive Advantage
- Fortune 250 Energy Company – Mechanical Design & Integrity

How one Fortune 500 CEO Sums it up:
“You get to the truth!”



Need for KPIs & KRIs

To **generate value**, organizations must achieve or **exceed performance goals** communicated to stakeholders . . .

To **retain value**, management must understand, monitor and proactively **manage significant risks** to the achievement of key objectives . . .

. . . By facilitating the **integration of KPIs and KRIs**, internal auditors can help management gain timely, useful **risk** and **performance** information that allows them to make effective decisions.



AIIMA 2017

KPIs - Definitions

Performance Measure: An indicator used by management to measure, report and improve performance.

Metric: Any standard of measurement.

“Key” Performance Indicators (KPIs): “Key” selected metrics that provide visibility into the performance of the business and enable decision-makers to take action. KPIs are tied to a target and chosen to give an indication of performance toward achievement of goals and objectives. KPIs tell us how well our business is performing and are used as a driver for improvement.

Note - Every KPI is a metric, but not every metric is a KPI.



KPI “Case Study”

Problem Statement:

- “The Company does not consistently focus on the activities and **metrics that truly drive shareholder value . . .**”

Solution:

- “Implement an on-going KPI Management Process that:
 - Directs **focus** on true value drivers of the business
 - Enhances **transparency**, thereby increasing **action** and **accountability**”



Current State of Performance Management

Company has multiple KPI approaches, projects, processes and systems.

- Uncommon language used across organization
 - Scorecards, Dashboards, Reports, Key Performance Indicators, Key Process Indicators, Metrics, Targets, Goals, etc.
- Numerous performance metrics and tolerance criteria
- Lack of clarity on what is most meaningful for driving the business
- Limited understanding of the end-state goal
- Recognized need for a standardized, top-down approach



Project Objective

Develop and initiate a KPI Management Process, focusing on a few executive-level metrics that direct management's attention towards drivers of value and achievement of strategic objectives.

- Identify/Select 4-6 critical KPIs, conducive to aggregation
- Ensure KPI characteristics allow effective target setting & measurement
- Determine management tolerance levels for each KPI
- Develop and implement a useful, scalable and sustainable process
- Design and implement appropriate executive-level visualization system
- Design KPI supporting technology that will be scalable



APMA 2017

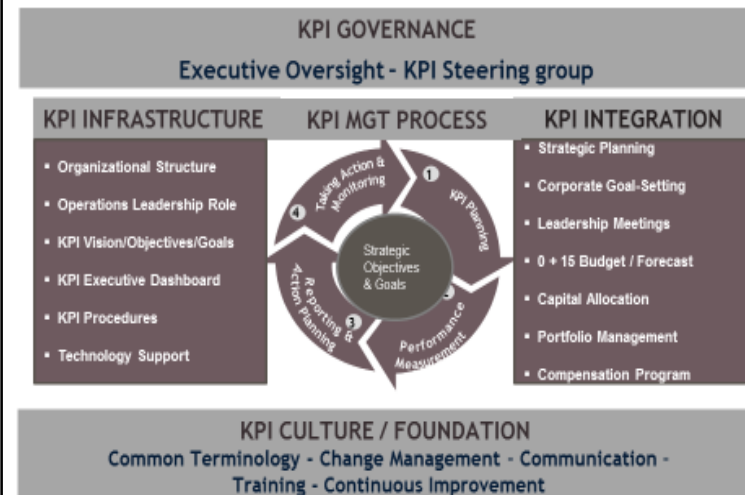
Project Team

KPI Project Resources:

- **Project Advocate** – EVP Operations
- **Project Sponsor** – VP Strategic Planning
- **Core Execution Team**
 - Project champion (Strategic Planning Leader - Could be an Internal Audit leader)
 - Project manager (Project Mgt. Office)
 - Project staff (Includes IT specialists)
 - External IT consultant (As needed)
- **Cross-functional Team** (Internal Audit, Ops, EHS, Acct, Data Mgt, IT, etc.)
- **Oversight Group** (Approx. 8 VPs across departments, including VP of Corp Audit)



KPI Framework



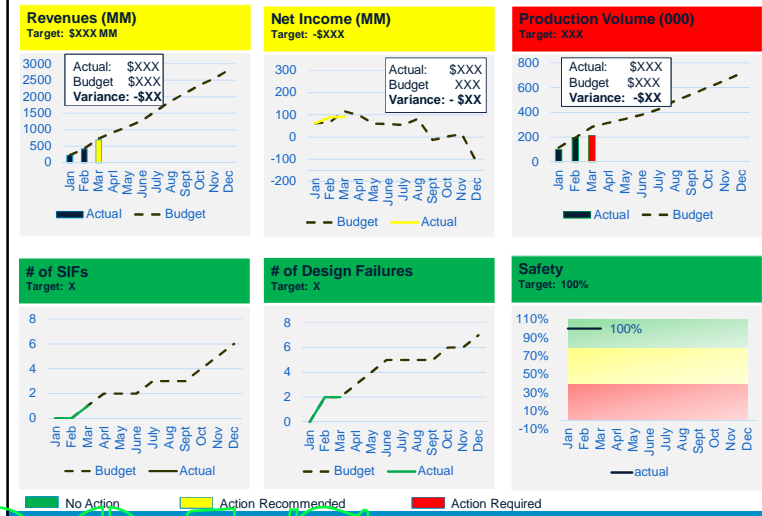
Visualization System

- **Report:** A document that contains data used for reading or reviewing
- **Scorecard:** A tool for visually tracking performance across a wide range of measures (e.g., Balanced Scorecard).
- **Dashboard:** A visual interface that provides views and tracks performance on key measures to communicate whether performance is meeting expectations.
- **KPI Executive Dashboard:** An easy-to-read, online user interface, showing graphical presentation (e.g., red, yellow, green) of a manageable number of “Key” Performance Indicators that focus management’s attention on the true value drivers of the business and shareholder return.

Note – Measuring isn’t what’s important, acting on the measure is.



Sample Executive Dashboard – March 2017



APMA 2017

Integrating KRIs with KPIs

Once the KPI Management Process is in place, you can follow a similar process to develop and integrate Key Risk Indicators (KRIs).

- Internal Audit experience with identifying emerging risks
- Ability to help management select the “key” risk indicators such as
- KRIs can be added to the KPI Management System
- KRIs can be viewed on the Executive Dashboard, simply with a toggle
- KRIs and KPIs can be monitored real-time by management, auditors and other leaders



Conclusion

Helping your organization generate and retain value:

- Opportunity for internal auditors to help management better measure performance and manage risk to the achievement of objectives
- Champion the development of a KPI Management Process
- Include KRIs with KPIs in ONE management system
- Help management gain timely, useful risk and performance information that allows them to make effective decisions



THANK YOU



AFMA 2017