RSM McGladrey

NACUSO
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Innovation & Collaboration:

Managing Operational Risk and Creating Effective CUSO Operations

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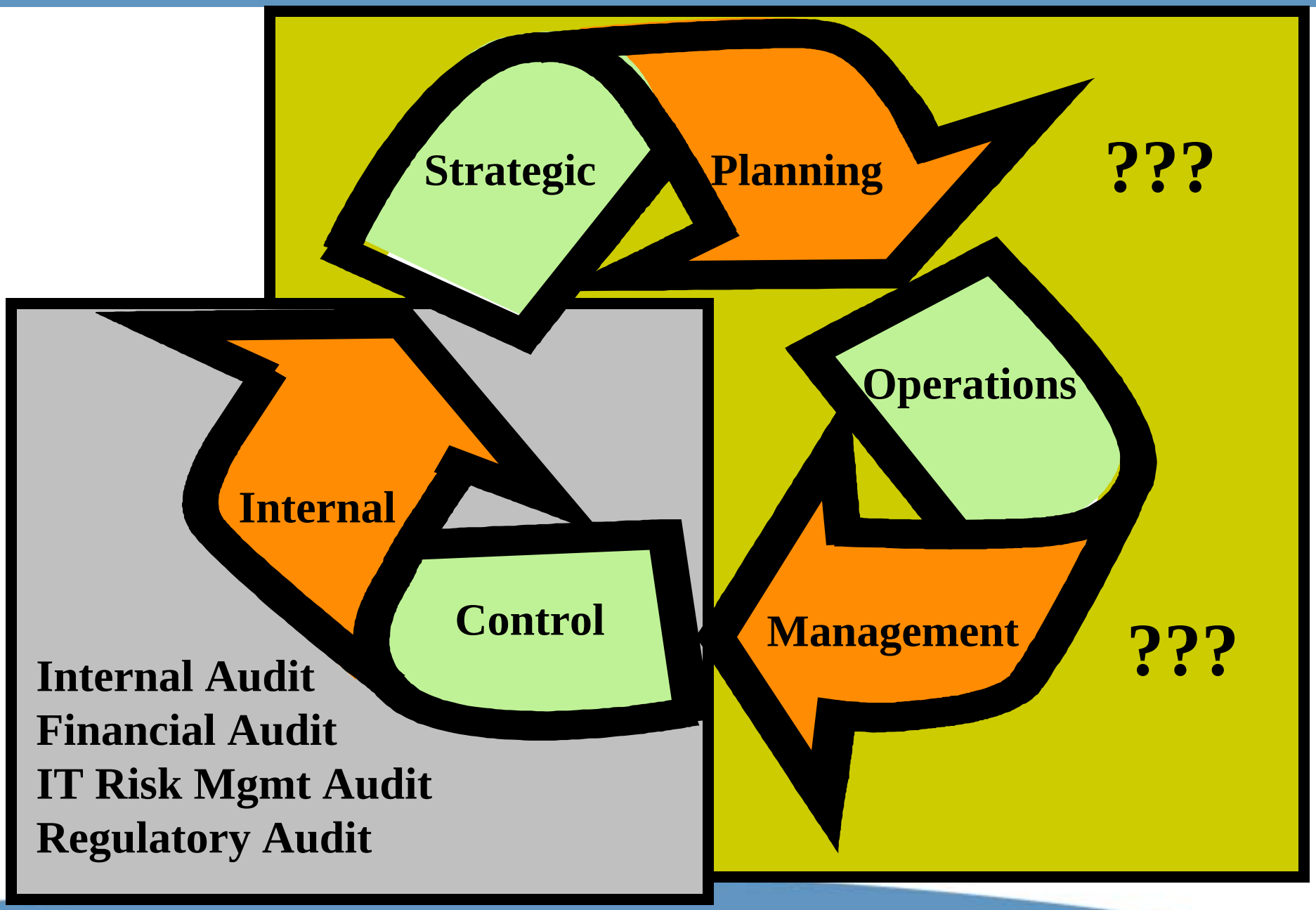
Managing Operational Risk and Creating Effective CUSO Operations

- Introductions
- Overview of Operational Risk Management Concepts
- Open Discussion on Business Challenges
- Discussion on Operational Risk Management
  - Attack v. React……with a Balanced Scorecard
- Managing to a “Changing Environment”
- Assessing Readiness for Operational Risk Management
  - Tactics and Tools…… Enterprise and Process Audits
- Questions

Enterprise Risk Management

ERM is a risk-based approach to managing an enterprise, using strategic planning, operations management, and internal control.

ERM is evolving to understand the broad spectrum of risks facing complex organizations to ensure they are appropriately managed.


Strategic
Planning
???
Operations
Management
???
Internal
Control
Internal Audit
Financial Audit
IT Risk Mgmt Audit
Regulatory Audit

What are your most critical business challenges?

- Developing People?
- Profitability?
- Growth?
- Operating Efficiently?
- Integrating with Credit Unions?

Tools for Strategy, Management, and Monitoring

- Balanced Scorecard
  - Robert Kaplan and David Norton framework
- Enterprise and Process Audits
  - Michael Hammer framework

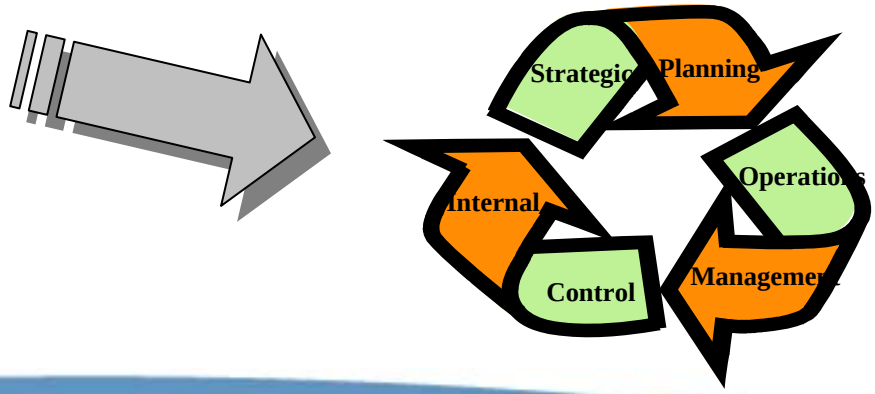
Balanced Scorecard

Attack v. React

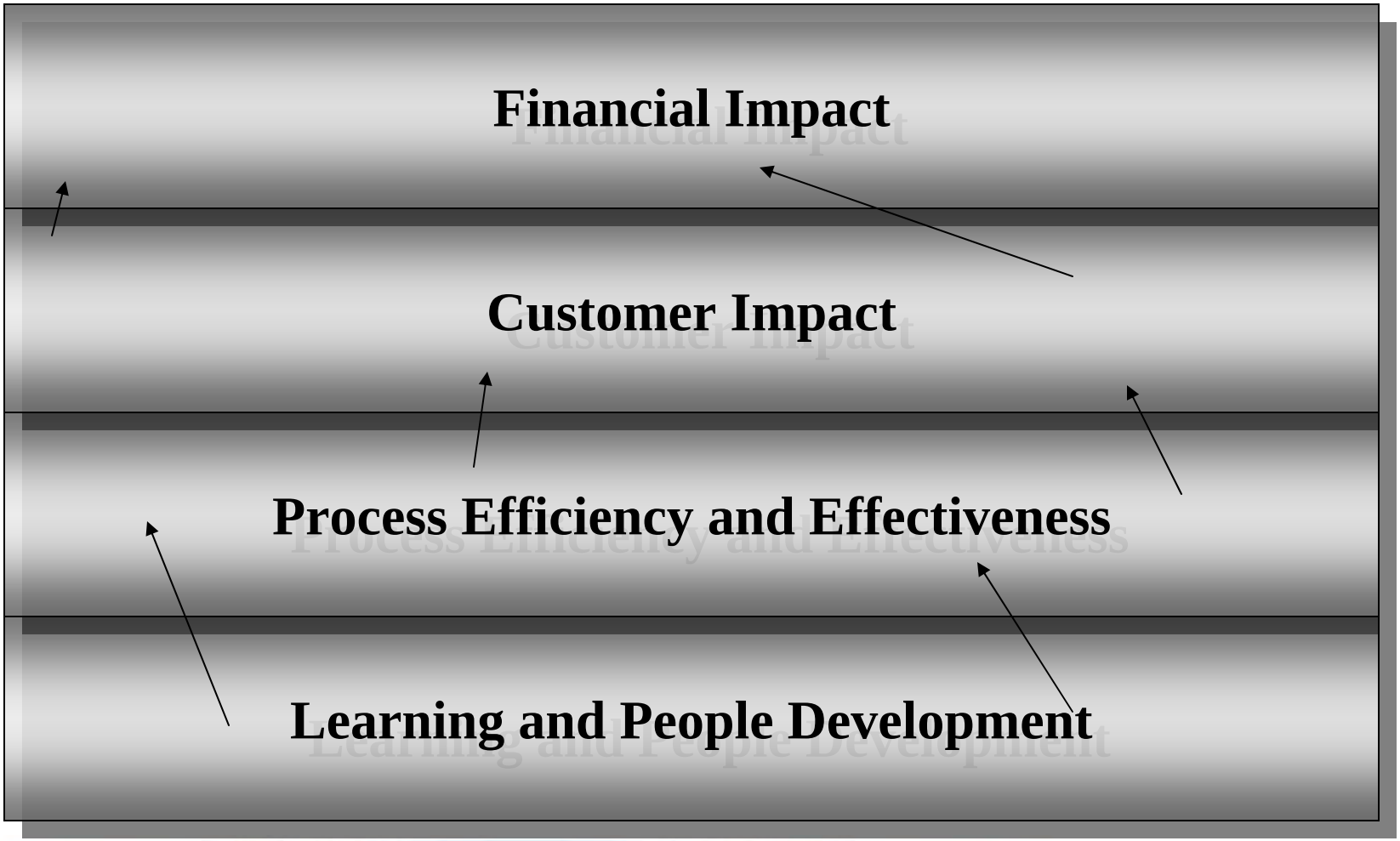
Balanced Scorecard

Implementing the scorecard typically includes four processes.

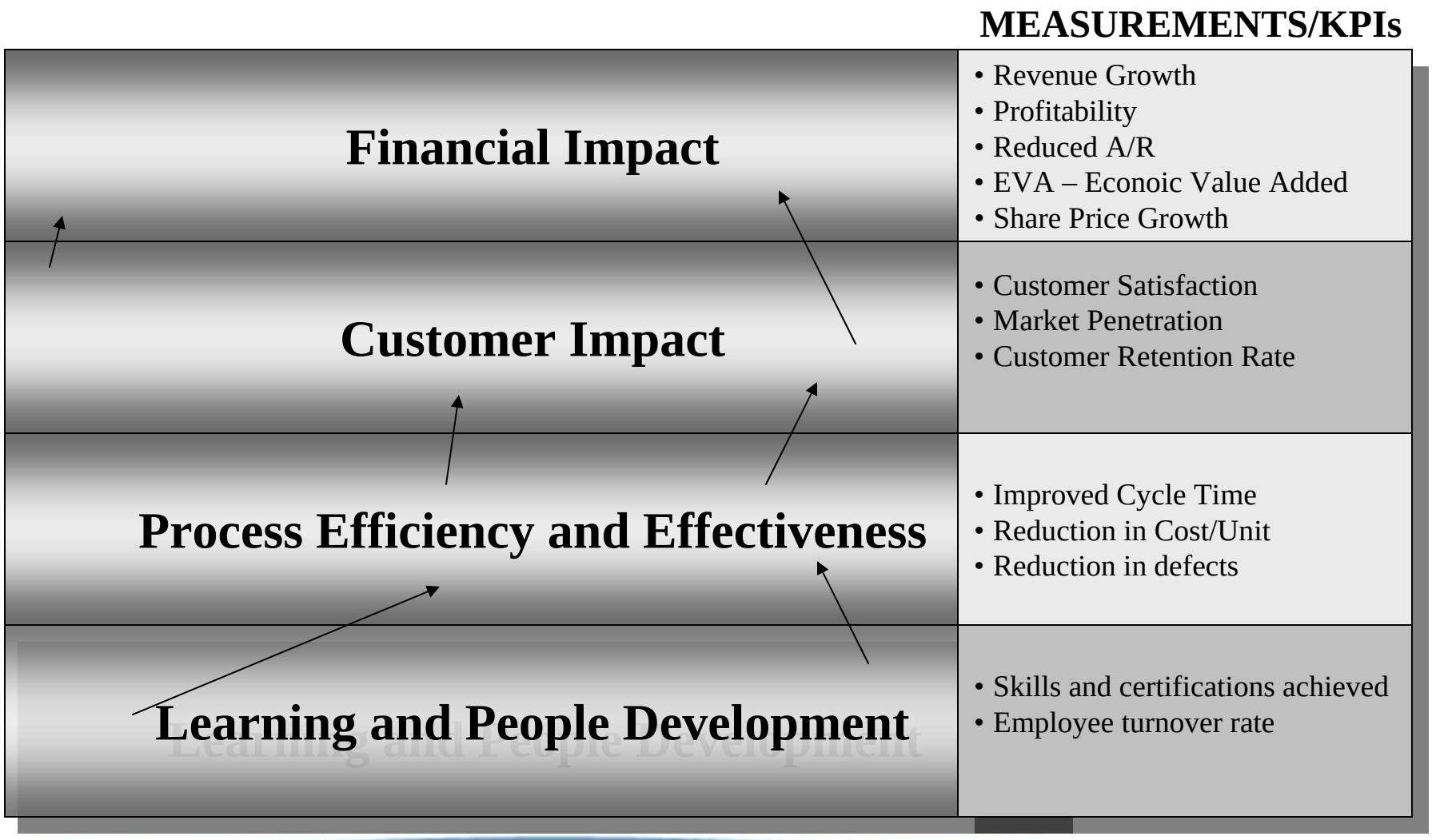
- Translating the vision into operational goals;
- Communicate the vision and link it to individual performance;
- Business planning;
- Feedback and learning and adjusting the strategy accordingly.



Balanced Scorecard Framework



Balanced Scorecard Framework



Balanced Scorecard Framework
What Measurements are important to your CUSO?

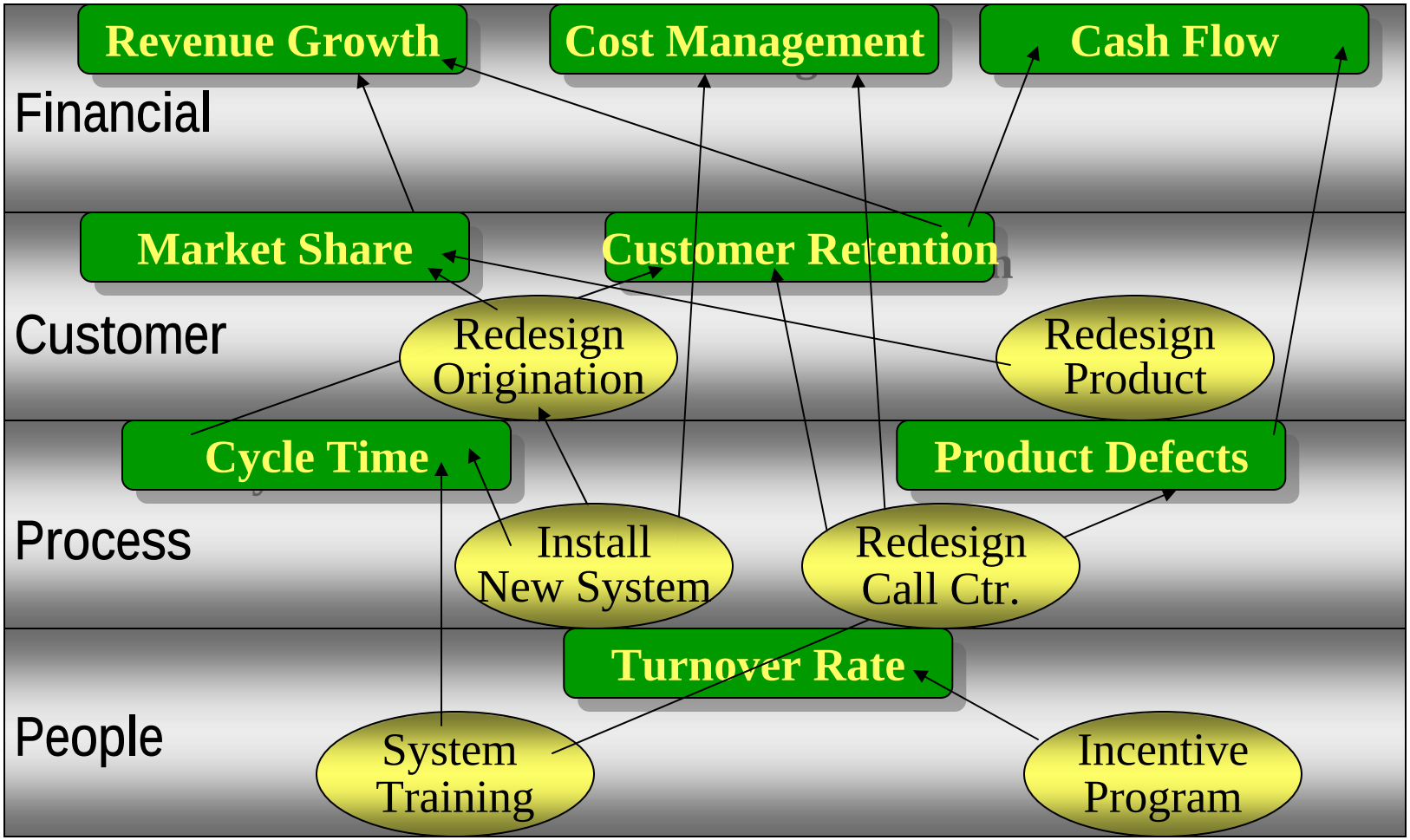
Financial Impact

Customer Impact

Process Efficiency and Effectiveness

Learning and People Development

Balanced Scorecard Framework



Projects KPI Measurements/KPIs

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Managing at the speed of CHANGE……

Assumptions

- The environment is always changing
- We need to understand and manage the change

Did You Know . . .

Sometimes size does matter.

If you're one in a million in China . . .

There are 1,300 people just like you.

In India,
there are 1,100 people
just like you.

The 25% of the population
in China
with the highest IQ's . . .

Is greater
than the total population
of North America.

In India,
it’s the top 28%.

Translation for teachers:
They have more honors kids than we have kids.

Did you know . . .

China will soon become
the number one
English speaking country
in the world.

If you took every single job in the U.S. today and shipped it to China . . .

China would still have a labor surplus.

During the course
of this automated
8 minute presentation

60 babies will be born in the U.S.

244 babies will be born in China.

351 babies will be born in India.

The U.S. Department of Labor estimates that today's learner will have 10-14 jobs . . .

By the age of 38.

According to the U.S. Department of Labor . . .

1 out of 4 workers today
is working for a company
they have been employed by
for less than one year.

More than 1 out of 2
are working for a company
they have worked for
for less than five years.

According to former Secretary of Education Richard Riley . . .

The top 10 in-demand jobs
in 2010
didn’t exist in 2004.

We are currently preparing students for jobs that don’t yet exist . . .

Using technologies that haven't been invented . . .

In order to solve problems
we don't even know
are problems yet.

Name this country . . .

- **Richest in the World**
- **Largest Military**
- **Center of world business and finance**
- **Strongest education system**
- **World center of innovation and invention**
- **Currency the world standard of value**
- **Highest standard of living**

England.

In 1900.

Did you know . . .

The U.S. is 20th in the world in broadband Internet penetration.
(Luxembourg just passed us.)

In 2002
Nintendo invested more than $140 million in research and development.

The U.S. Federal Government spent less than half as much on Research and Innovation in Education.

1 out of every 8 couples married in the U.S. last year met online.

There are over 100 million registered users of MySpace. (August 2006)

The average MySpace page is visited 30 times a day.

Did you know . . .

We are living
in exponential times.

There are over 2.7 billion searches performed on Google each month.

To whom were these questions addressed B.G.? (Before Google)

The number of text messages sent and received every day exceeds the population of the planet.

There are about 540,000 words in the English language . . .

About 5 times as many as during Shakespeare's time.

More than 3,000 new books are published . . .

Daily.

It's estimated that
a week's worth
of New York Times . . .

Contains more information than a person was likely to come across in a lifetime in the 18th century.

It's estimated that
1.5 exabytes (that's 1.5 x 1018)
of unique new information
will be generated worldwide
this year.

That’s estimated to be more than in the previous 5,000 years.

The amount of new technical information is doubling every 2 years.

That means for a student starting a four-year technical college degree . . .

Half of what they learn
in their first year of study
will be outdated by
their third year of study.

Third generation fiber optics has recently been separately tested by NEC and Alcatel . . .

That pushes
10 trillion bits per second
down one strand of fiber.

That’s 1,900 CDs or
150 million simultaneous
phone calls every second.

It’s currently tripling
about every 6 months
and is expected to do so
for at least
the next 20 years.

The fiber is already there,
they're just improving
the switches on the ends.

Which means
the marginal cost
of these improvements
is effectively $0.

The $100 laptop project is expecting to ship between 50 and 100 million laptops a year to children in underdeveloped countries.

Predictions are that by 2013
a supercomputer will be built that
exceeds
the computation capability
of the Human Brain . . .

By 2023, a $1,000 computer will exceed the capabilities of the Human Brain . . .

While technical predictions farther out than about 15 years are hard to do . . .

Predictions are
that by 2049
a $1,000 computer will exceed the
computational capabilities
of the human race.

Did you know . . .

That those born between 1928 and 1945 are
TRADITIONALISTS

Those born between 1946 and 1964 are
BOOMERS

Those born between 1965 and 1979 are
GEN X

Those born between 1980 and Now are
GEN Y

TRADITIONALISTS

Were loyal to institutions

BOOMERS

Desire quality and team orientation

GEN X

Are self reliant and techno-literates

GEN Y

Are techno-savvy and Confident

TRADITIONALISTS

Were stable and hard working

BOOMERS

Were willing to “go the extra mile”

GEN X

Are not intimidated by authority

GEN Y

Have extraordinary multi-tasking capabilities

TRADITIONALISTS

Used rotary phones and telegraph

BOOMERS

Used Touch-tone Phones

GEN X

Used Cell Phones

GEN Y

Use IPOD-PDAs

TRADITIONALISTS

Carried Passbook savings books and had Christmas Accounts

BOOMERS

Use checks and credit cards

GEN X

Rarely enter a branch

GEN Y

Do their banking functions online and avoid branches

What does it all mean?

Shift Happens.

Now you know . . .

Changing trends in attitudes and desires impact your:

- Members' needs
- Employee expectations
- Internal processes
- Delivery Channels
- Cost of service

Can you Lead Change?

Daryl Conners, “Managing at the Speed of Change,” indicates that from his 20 years of research:

75% of projects do not result in the anticipated benefits originally anticipated.

WHY?

WHY?

#1 Reason is …….

Poor Leadership

#2 Reason is …….

Poor Management

"Management is efficiency
in climbing the ladder of success.

Leadership determines whether
the ladder is leaning against the right wall."

- Stephen R. Covey

Strategy is nothing without execution.

Where does this logic take us?

Operational Risk Management

You have to be proactive.

To be reactive
is to always be chasing the changing world.

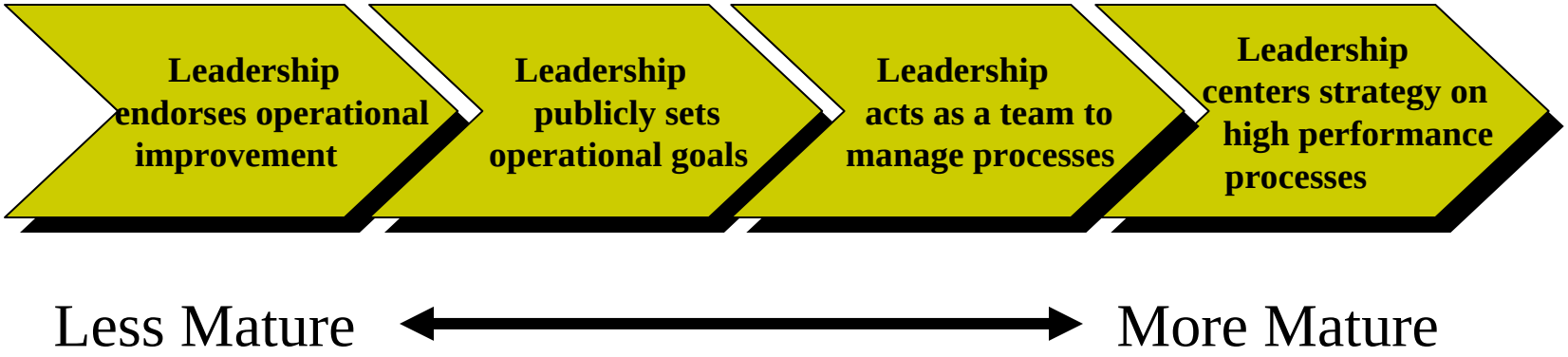
Capabilities for Operational Risk Management

- Do you have a framework for managing Operational Risk?
  - Balanced Scorecard
- Are you ready to manage Operational Risk?
  - Enterprise Capabilities and Process Enablers

Enterprise Capabilities and Process Enablers

Maturity is a concept that assumes that you have developed and evolved to a point to effectively deal with managing change and operational risk

EXAMPLE:



Enterprise Capabilities

- Leadership – supporting effective processes
- Culture – values customers, teamwork, and accountability
- Expertise – Skills and methodologies for operational management and process improvement
- Governance – Mechanisms for managing complex initiatives

Process Enablers

- Design – specifications for the process
- Performers – skills, knowledge, and attitude
- Owner – accountable executive
- Infrastructure – information and mgmt systems
- Metrics – measuring performance

Operational Risk Management Readiness

Homework:

- **Complete the qualitative assessment for Enterprise Maturity**
- **Complete the qualitative assessment for Process Maturity**
- **Discuss the findings with other leaders**

THANK YOU

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