Strategic Risk Management: Leading Value Creation in Your Own Organization

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Paychex, Inc.
Rochester, NY
Session Overview

• Value Creation at Paychex
• Process Overview
• Creating Value, Leading Change Toolkit
• Closing & Questions
FOCUS ON SUCCESS AND VALUE

NOT ON REDUCING UNCERTAINTY
Enterprise Risk Management

Value Creation at Paychex
Paychex Profile

- Based in Rochester, NY
- Provider of comprehensive payroll, human resource, and benefits outsourcing solutions for small to medium sized businesses
- Approximately 605,000 clients and more than 100 offices across the U.S., Europe and South America
- 10 million client employees provided with Payroll and HR services
- Pays 1 in 15 Americans
Risk Management Structure & Apparatus

Enterprise Perspective

Operational Execution

Enterprise Risk Management

Collections

Regulatory Tracking

Risk Assessments

Credit Decisions

Fraud Mitigation

Collections

Peer Reviews (P4)

Risk Reporting

Predictive Analytics

Value Creation

Centralized Functions

• Centralized privacy
• Centralized data governance

Data Science

Shared Services

Credit & Banking

Compliance

Operating Risk

Results Management

Operational Execution

Centralized Functions

• Centralized privacy
• Centralized data governance

Recording of this session via any media type is strictly prohibited.
Risk Monetization

**Traditional Sources**
- Acquisitions
- Divestitures
- Compliance-Driven
- Risk Monetization of Legal Matters

**Hiding Places**
- “Revenue Leakage”
- Within Organization Silos
- Customers’ Customers
- Evolving Trends (connecting the dots)
Predictive Analytics at Paychex

- Client Retention
- Employee Turnover
- Upselling
- Product Recommendation Algorithms
- Credit Risk
Value Creation Continuum

**Exploration**
- Federal Deposit Frequencies
- Small Biz Lending
- Applied For Fee
- NSF Fees
- Tax Payment Assistance
- Billing Audits
- Tax Service Partnership

**Phase I** - 2012
- NSF fees
- TP prem. proc. fees
- RCX stale-date fees
- Applied for fees
- EGTRRA fee
- Fed deposit frequency
- P4 recommendations
- Security Deposit Process

**Phase II** - 2014
- NSF Fees Increase
- Non-EIP Green Fee
- Delayed Processing Fee
- Self Directed Funding
- Data Monetization
- Incremental NSF Fees
- Secured Funding (Revenue Retention)
- Small Business Loans

**Phase III** - 2016
- Billing audit
- Risk-based pricing
- Tax payment program
- Penalty protection
- Alternative processing
- 1040EZ form
- Client data storage
- Tax service partnership
- Federal deposit enhancements
- Increase NSF base fee
- Increase RCX stale date fee
- Increase non-EIP invoice fee
- Non-EIP late fee

**Results**
Value Creation, Leading Change
Uncovering Hidden Value
Core Services Expansion

**Near Adjacencies**
- Accounting suite for SME
- Employee talent management/onboarding
- Domestic Expansion
- Expense Management
- New customers (temp agencies/distributed workforces)
- Immigration Verification/ Employment Eligibility
- Bill Payment Services
- Private Unemployment Insurance
- Client Data Privacy/Security/Back-up

**Contiguous Categories**
- International Expansion
- Viral/Social Media channel
- SME compliance
- Key Market Verticals (w/added capability)
- Web Hosting
- New customer bases - to cross-sell payroll into
- Analytics & Predictive Modeling
- Consultative Services (non-HR)
- Risk Management Product

**Far out**
- Small Business Lending
- Financial Services
- Lobbying
- IRS strategic partnerships
- Paychex temporary EE pool
- Social Media/B2B Client Marketing
- Interactive Online Technology/Interface

**Paychex Core**
- Payroll
- HRS
- Retirement
- Insurance
Situation Assessment Tools

Future Scanning

Leadership Effectiveness

- Fears the Future
- Hopes for the Future
- Uses the Past to Prepare for the Future
- Sees/Anticipates the Future
- Molds the Future

Search for current articles related to management issues, industry environment, and social intelligence
Situation Assessment Tools

SWOT Analysis

<table>
<thead>
<tr>
<th>Internal</th>
<th>Helpful</th>
<th>Harmful</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengths</td>
<td>SW</td>
<td>Weaknesses</td>
</tr>
<tr>
<td>Opportunities</td>
<td>OT</td>
<td>Threats</td>
</tr>
</tbody>
</table>
Situation Assessment Tools
Michael Porter’s Five Forces Model of Competition

- Threat of new entrants
- Bargaining power of suppliers
- Rivalry among existing competitors
- Threat of substitute products or services
- Bargaining power of buyers
Situation Assessment Tools
The Bird in the Hand

• Innovation does not have to be something absolutely, completely new
• Most companies have previous discoveries with overlooked innovation or market potential
• The work is done, and if recognized, the payback could be swift

Bettencourt & Bettencourt, HBR, June 2011
Innovations that were previously developed but never launched
“In Hand” Innovation – Source #2

Features of past products that may meet newly critical customer needs
“In Hand” Innovation – Source #3

Existing offerings that should be repositioned, because customers like them for unforeseen reasons
“In Hand” Innovation – Source #4

Elements of bundled offerings that could stand alone
New combinations of elements, in which the bundled value to customers is greater than the sum
“In Hand” Innovation – Source #6

Overdesigned offerings that could be pared down for less-demanding customer segments
Idea Generation Tools

Situation Assessment Worksheets

Bird in Hand Worksheet
Creating Value, Leading Change

Assessing & Prioritizing Ideas
Idea Assessment Tool

Utilize a standardized method for assessing the value of the idea. Score the overall idea by placing a value on these metrics:

• Revenue Opportunity
• Complexity
• Speed
## Value Metrics

<table>
<thead>
<tr>
<th>Revenue Opportunity</th>
<th>Complexity</th>
<th>Speed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Minor (1)</td>
<td>Very Easy (5)</td>
<td>Very Slow (1)</td>
</tr>
<tr>
<td>Minor (2)</td>
<td>Easy (4)</td>
<td>Slow (2)</td>
</tr>
<tr>
<td>Moderate (3)</td>
<td>Moderate (3)</td>
<td>Moderate (3)</td>
</tr>
<tr>
<td>High (4)</td>
<td>Difficult (2)</td>
<td>Fast (4)</td>
</tr>
<tr>
<td>Very High (5)</td>
<td>Very Difficult (1)</td>
<td>Very Fast (5)</td>
</tr>
</tbody>
</table>
## Prioritization Scoring

<table>
<thead>
<tr>
<th>Idea</th>
<th>Revenue Opportunity</th>
<th>Complexity</th>
<th>Speed</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer product bundle to food truck owners</td>
<td>MINOR score: 2</td>
<td>EASY score: 4</td>
<td>FAST score: 4</td>
<td>32</td>
</tr>
<tr>
<td>Expand time keeping service to provide tax agency-ready reports</td>
<td>HIGH score: 4</td>
<td>MODERATE score: 3</td>
<td>MODERATE score: 3</td>
<td>36</td>
</tr>
<tr>
<td>Offer benefits package for ride share companies</td>
<td>MODERATE score: 3</td>
<td>EASY score: 4</td>
<td>VERY FAST score: 5</td>
<td>60</td>
</tr>
</tbody>
</table>
Idea Assessment & Prioritization Tools

Assessment Worksheet

Prioritization Worksheet
create a storehouse for side-lined ideas
re-evaluate them routinely
Creating Value, Leading Change

Implementing New Ideas
Implementation Tool: SMART Goals

**Specific**
What do you want to accomplish?
How will it benefit the department (quality, quantity, and cost benefit)?
What major activities need to occur to complete the goal?
Who is involved?
Which requirements or constraints do you need to be aware of?

**Measurable**
How do you know you have met the goal? (milestones, tasks completed, etc.)
What does success look like? (how much, how many, ranking)

**Actionable**
Is the goal phrased as an activity you could perform? Is it action-oriented?
Do you have access to proper resources (time, tools, equipment, money) to complete the assignment?

**Realistic**
Is this activity within your control?
Do you have the work ethic to complete the activity?
Is the activity too high or low based on your skillset?

**Time bound**
When should this activity be started?
When should this activity be completed?
## SMART Goal Example

**Priority Smart Goal:** Recruit and onboard at least three new board members by February 18, 2015. *(Completed as of 12/17/14)*

<table>
<thead>
<tr>
<th>Activities/Tasks</th>
<th>People Responsible</th>
<th>Resources</th>
<th>Timeline</th>
<th>Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meet with prospective board members</td>
<td>Janice Gouldthorpe, Nominating committee member availability</td>
<td>Meeting space/time availability, Nominating committee member availability, Candidate availability</td>
<td>Monthly meetings with newly acquired or prospective board members, as applicable.</td>
<td>For each board meeting between September 2014 and December 2014, there should be documented that Janice and/or the Nominating committee met with at least one newly acquired and/or perspective board member.</td>
</tr>
</tbody>
</table>

**Recruit and approve board member #1** *(Frances Kabat)*

<table>
<thead>
<tr>
<th>People Responsible</th>
<th>Resources</th>
<th>Timeline</th>
<th>Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chuck Vorndran, Nominating Committee, Board members</td>
<td>Meeting space/time availability, Nominating committee member availability, Candidate availability</td>
<td>Meet and approve member #1 by November 19, 2014 board meeting.</td>
<td>New board member #1 has been successfully voted onto the board in December meeting and is documented in the board meeting minutes by December 17, 2014.</td>
</tr>
</tbody>
</table>

**Recruit and approve board member #2** *(Michael Clark)*

<table>
<thead>
<tr>
<th>People Responsible</th>
<th>Resources</th>
<th>Timeline</th>
<th>Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chuck Vorndran, Nominating Committee, Board members</td>
<td>Meeting space/time availability, Nominating committee member availability, Candidate availability</td>
<td>Meet and approve member #2 by November 19, 2014 board meeting.</td>
<td>New board member #1 has been successfully voted onto the board in December meeting and is documented in the board meeting minutes by December 17, 2014.</td>
</tr>
</tbody>
</table>

**Recruit and approve board member #3** *(Jennifer Genter)*

<table>
<thead>
<tr>
<th>People Responsible</th>
<th>Resources</th>
<th>Timeline</th>
<th>Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chuck Vorndran, Nominating Committee</td>
<td>Meeting space/time availability, Nominating committee member availability, Candidate availability</td>
<td>Meet and approve member #3 by November 19, 2014 board meeting.</td>
<td>New board member #1 has been successfully voted onto the board in December meeting and is documented in the board meeting minutes by December 17, 2014.</td>
</tr>
</tbody>
</table>
Implementation Tools

SMART Goals Worksheet
Creating Value, Leading Change

The Toolkit
# The Toolkit

## Idea Generation
- Situation Assessment
- Future Scanning
- SWOT
- Porter’s Five Forces of Competition
- PEST
- Bird in Hand

## Assessment
- Value Metrics & Scoring

## Prioritization
- Opportunity Mapping

## Implementation
- SMART Goals
Creating Value, Leading Change

Questions & Comments
Thank You!

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