

---

Measure, Manage, Monitor, Improve



KPIs For Better Business Results.



## KPI Close-up On RAROC

<b>KPI:</b>	Risk-Adjusted-Return-On-Capital (RAROC)
<b>Objective:</b>	Maximize the return on equity and minimize the risk of each activity in the company
<b>High-Level Objective:</b>	Increase the returns of the company within acceptable risk tolerance
<b>Accountability:</b>	CFO
<b>Target:</b>	Each business unit should provide a minimum of XX% risk-adjusted-return-on-capital
<b>Problem:</b>	Excess risk in certain activities, too much capital tied up in unprofitable activity

This KPI cuts to the heart of what every business manager and financial officer must achieve: deliver the best returns on equity to the shareholders/owners without increasing the risk of commercial activity beyond acceptable limits.

As a manager looks across his organization, how much does he really know about the profit and loss (P&L) information he is receiving? The accuracy of a P&L notwithstanding (OILspace uses other KPIs to measure this, such as Actual vs. Projected P&L), is the business unit consuming large amounts of working capital to achieve its results? What sort of risks are they taking? How can a manager compare a solid P&L from a very risky business unit that requires vast amounts of working capital with the modest P&L of a safe and stable business unit that requires little financing?

Calculating the risk-adjusted-return-on-capital (RAROC) is complicated. To accomplish this, ASPECT Office collects not only real-time P&L figures, but measures the working capital utilization and the value-at-risk (VaR) across the organization. By collecting this information into a unified whole, it becomes possible to compare one business unit with another across the full set of important variables: profitability, working capital requirements, and risk.

OILspace customers use the RAROC KPI to accomplish many things. Primarily they use it to prioritize their business, selecting a risk profile that delivers them the best return on equity possible. In addition, by monitoring RAROC for any given business unit, strategy or employee, managers are better able to reward exceptional performance.



Building Successful Supply Chains - One Solution At A Time.

Houston +1.713.589.5307

London +44.20.7629.6300

Shanghai +86.21.6122.1059

Moscow +7.095.105.7245

Singapore +65.6738.6525 [www.oilspace.com](http://www.oilspace.com) / [moreinfo@oilspace.com](mailto:moreinfo@oilspace.com)

---