A Practical Approach to Institutional Risk Management

Getting Risk Right in an Era of Constrained Administrative Resources

Part II: Getting the House Focused on Institutional Risk Management

November 29, 2012
Comprehensive, But Unrealistic

Average University Fails to Define “Risk” Leading to an Endless List of Risks

University Attempts to be “Comprehensive” Leads to Unrealistic Results

University Risk Register (Illustrative)

1. Sustainability of high-cost/high-discount pricing model
2. Inability to properly manage academic records
3. Research misconduct
4. Declining public perception of value of liberal arts degree
5. Laboratory safety lapses
6. Misappropriation of research grant costs
7. Unauthorized modification of data
8. Sustainability of student indebtedness levels
9. Inability to meet retention targets
10. Improper use of motor vehicles by students
11. Vandalism to university property
12. Failure to meet institutional enrollment targets
13. HIPAA compliance
14. Inability to meet liquidity targets due to market fluctuations

......

300. Improper receipt/recording of gifts
301. Failure to comply with faculty hiring processes
302. Inappropriate use of university logo or insignia
303. Lack of compliance with smoking regulations

Pitfalls of Average University Risk Register

Inflated Risk Register
Average risk register identifies 200-500 risks – more risks than can be addressed by the institution

Conflated Risks
Attempts to be comprehensive lead to identifying risks of different “altitudes.”

• Sustainability of high-cost/high-discount pricing model
• Inadequate controls over cash receipts
• Inability to meet enrollment targets

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Source: Education Advisory Board interviews and analysis.
Leads to “Boil-the-Ocean” Approach to Identify Risks

Average University Risk Identification Process

“What Keeps You Up at Night?”

Are effort reports being submitted on time?

How material are our lab safety lapses?

Do we conduct adequate background checks?

Can we continue to recruit star PIs?

Why do we have low persistence rates among juniors?

Are our researchers compliant with export control rules?

Are cost transfers compliant with regulations?

Are we prepared for a natural disaster?

Vice Provost

Average small institution has 10-20 representatives on committee identifying risks
Different from Our Corporate Brethren

*Private Sector More Focused on Risk Treatment than Identification*

**Walmart**

- **Risk Identification**: 20-30 risks
- **Risk Assessment & Prioritization**: 3-5 prioritized risks
- **Risk Treatment**: Focus on narrow set of risks leaves ample time and resources for risk treatment

**Average University**

- **Risk Identification**: 100-300 risks
- **Risk Assessment & Prioritization**: 50-100 risks
- **Risk Treatment**: Campaign fatigue from long identification and prioritization phases leaves little energy for risk treatment

Source: Atkinson, William, Enterprise Risk Management at Walmart, (Risk Management Magazine); Education Advisory Board interviews and analysis.
Difficult to Assess and Prioritize

*Serious Doubts Over Effectiveness of the Risk Assessment and Prioritization Process*

**Common University Challenges**

**Moving Past Personal Biases**

Are our assessments of risk likelihood and impact objective enough to be of any use?

**Rationalizing Resource Allocation**

How do we ensure we’re allocating administrative resources to our areas of greatest need?

**Getting Agreement on Definitions of Impact**

How do we get past squabbles over which university values are most important, and get to actual prioritization of risks?
What Risk?

Local Units Fail to Understand Risk Implications of Local Decisions

Faculty Mean Well But Often Fail to Understand Risk Implications of Decisions

Field Excursions

- Lebanese professor coordinates study abroad trip to Lebanon, leveraging personal knowledge and network
- Professor and students must be extracted from country after Israel-Lebanon conflict breaks out in 2006

Recruiting Top Researchers

- Canadian university recruits star researcher, provides state-of-the-art lab and a $0.5M professorship
- Fails to conduct adequate employee background check
- National Science and Engineering Research Council subsequently bars researcher from receiving grants indefinitely due to past plagiarism and $150K of misappropriated funds

New Academic Programs

- College of Professional and Continuing Studies launches new program expecting to generate 40% contribution margin
- Actual contribution margin is -92%, failing to identify the risk that if courses are taught by FT faculty on overload, it would eliminate potential profit

Source: Education Advisory Board interviews and analysis.

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## Not Winning the War

*CBOs Struggle to Move Campus from Awareness to Action*

### Common Pitfalls that Stall Risk Treatment Efforts

<table>
<thead>
<tr>
<th>Treatment Plans Lack Accountability</th>
<th>Incentives Are Insufficient to Spur Unit-Level Action</th>
<th>Inability to Reallocate Resources to Institutional Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Managers develop unachievable “pie in the sky” treatment plans without any checks for plausibility</td>
<td>• Incentives and support offered by administration are not attractive enough to persuade unit-level leaders that mitigation plans are worth the effort</td>
<td>• Risk treatment efforts are not “costed out,” leaving administrators to guess how much funding is needed and where</td>
</tr>
<tr>
<td>• Lack of follow-up means treatment plans often sit on the shelf</td>
<td></td>
<td>• Inflexible budgeting model complicates reallocation between risk areas</td>
</tr>
</tbody>
</table>

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Source: Education Advisory Board interviews and analysis.
Clarifying Our Terms

Our Working Definition of Institutional Risk Management

Institutional Risk Management

- Adoption of a risk framework (e.g., COSO or ISO 31000)
- Comprehensive assessment of institutional risk
- Periodic reports to Board on institutional risks

Uncontrollable (Contextual Factors)

Systemic & Existential Risks

- Risks impacting all of higher education
- Unable to directly control

Controllable (Strategic & Organizational Factors)

Institutional Risks

- Idiosyncratic risks – generally risks are related to an inability to meet strategic objectives
- Best addressed by President’s cabinet

Unit-Level Risks

- Idiosyncratic risks – generally risk is related to an existing, broken process
- Best addressed by divisional head

Source: Education Advisory Board interviews and analysis.
<table>
<thead>
<tr>
<th>Systemic &amp; Existential Risks</th>
<th>Institutional-Level Risks</th>
<th>Unit-Level Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decline of traditional 18-21 student cohort</td>
<td>Inability to meet enrollment targets</td>
<td>Improper receipt/recording of gifts</td>
</tr>
<tr>
<td>Sustainability of high-cost/high-discount pricing model</td>
<td>Inability to meet retention targets</td>
<td>Inability to properly manage advising or academic records</td>
</tr>
<tr>
<td>Threat of emerging delivery models</td>
<td>Inability to offer competitive financial-aid packages</td>
<td>Inability to account for property, plant, and equipment due to poor inventory controls</td>
</tr>
<tr>
<td>Faculty talent shortage/misalignment of emerging PhDs</td>
<td>Inability to meet liquidity targets against market fluctuations</td>
<td>Improper use of motor vehicles by students</td>
</tr>
<tr>
<td>Sustainability of “excessive” student indebtedness</td>
<td>Inability to fully fund post-retirement obligations</td>
<td>Vandalism to university property</td>
</tr>
<tr>
<td>Reduction in family financial capacity and its impact on demand of higher education</td>
<td>Inability to keep up with growth in data center capacity</td>
<td>Improper use of university logo or insignia</td>
</tr>
</tbody>
</table>

Source: Education Advisory Board interviews and analysis.
Today’s Focus
De-averaging Institutional Risk Management Creates a Manageable Process

Roundtable Research Identifies Method for Universities to Avoid a Negative NPV Project

Average University

University Risk Register (Illustrative)

1. Sustainability of high-cost/high-discount pricing model
2. HIPAA compliance
3. Research misconduct
4. Declining public perception of value of liberal arts degree
5. Laboratory safety lapses
6. Misappropriation of research grant costs
7. Unauthorized modification of data
8. Sustainability of student indebtedness levels
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Progressive University

Systemic & Existential Risks (>5%)
- Sustainability of high-cost/high-discount pricing model
- Declining public perception of value of liberal arts degree
- Sustainability of student indebtedness levels

Institutional Risks (20-30%)
- Research misconduct
- Failure to meet institutional enrollment targets
- Failure to meet retention targets
- Inability to meet liquidity targets due to market fluctuations

Unit-Level Risks (65-75%)
- HIPAA compliance
- Laboratory safety lapses
- Misappropriation of research grant costs
- Unauthorized modification of data
- Improper use of motor vehicles by students
- Vandalism to university property
- Improper receipt/recording of gifts

Source: Education Advisory Board interviews and analysis.
A Practical Approach to Institutional Risk Management

*Getting Institutional Risk Management Right in an Era of Constrained Resources*

Getting the House Focused on Institutional Risk Management

I

Structuring Ownership & Managing Board Oversight

II

Fast-Cycling Risk Identification

III

Assessing and Prioritizing Risks

Embedding Institutional Risk Management in the Academy

IV

Increasing Campus Risk Awareness

V

Instilling Accountability & Incenting Action
I. Structuring Ownership & Managing Board Oversight

What’s the governance structure we should deploy, and how should we manage Board involvement in the process?

Practice #1: Targeted Risk Governance

Practice #2: Board-Limiting Charter

Emory University        Compilation of Institutions
Practice #1: Targeted Risk Governance

Typical University Problem
Most institutions have one risk management committee with representatives addressing everything from strategic risks to operational and compliance risks. The committee’s sweeping mandate coupled with wide disparities in the backgrounds of members lead to an unnecessarily slow vetting process and wasted time for both executives and frontline staff.

Compilation of Institutions

Best Practitioner Approach
Progressive institutions opt for targeted risk discussions with key senior administrators to avoid a risk register that contains hundreds of “unit-level” risks.

KeyAnimating Principle
Risk discussions grounded in the university’s strategic pillars ensures that initial risk identification discussions unearth systemic and institutional-level risks.
The Monolithic Risk Committee

Large Universities Primarily Concerned Over Bypassing Large Risk Committee

Pathologies of Traditional (and Slow) Large University Risk Committee

Overemphasis on “Lowest Common Denominator” Risks

Risks with broad interest across the committee get more airtime than high-level strategic risks with less universal appeal (e.g., liquidity risk), despite the latter’s importance.

Every Risk Gets Full Committee Hearing

Senior administrators must listen to details of operational risks, and frontline staff sit through discussions of strategic risks.

Members Use Committee Time to Opine on Risks They Know Little About

Given the committee’s comprehensive mandate, members have little expertise to offer on many of the risks under discussion.

Implementation Discussions Interest Only Frontline Staff

As the institution’s only risk forum, the committee is the only place to discuss granular details of risk controls, wasting executive’s time.

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Source: Education Advisory Board interviews and analysis.
Where Do I Find My Risk Resources?
Small Institutions Primarily Concerned Over Who Will Lead ERM Charge

Common CBO Questions When Launching ERM

Do we need a risk management office?

Should internal audit lead the ERM effort?

Should General Counsel lead the ERM effort?

Can I embed ERM with our strategic planning efforts?

University CBO

Source: Education Advisory Board interviews and analysis.
Who Leads the ERM Charge?

Small Institutions Generally Assign ERM Charge Based on Skill and Bandwidth

An Unscientific Analysis

*Education Advisory Board Audit*

N = 25

- Implemented ERM: 12
- Risk Management: 5
- Human Resources: 2
- Institutional Planning: 2
- General Counsel: 1
- Internal Audit: 1
- Budget & Planning: 1

Leverages strategic planning discussions to embed risk management discussions

- What are strategic objectives?
- How will objectives be implemented?
- What are risks of each objective?

Source: Education Advisory Board interviews and analysis.
Different Questions, Same Answer

Both Small and Large Progressive Universities Use Targeted Risk Interviews to Launch ERM Initiative

Participants of Initial Risk Discussion

President

Provost

VP, Finance and Administration

VP, Human Resources

VP, Student Affairs

VP, General Counsel

VP, Information Technology

VP, Advancement

VP, Communications

Source: Education Advisory Board interviews and analysis.
Risk Discussion Overview

Targeted Interviews...

- Initial risk discussions limited to President’s Cabinet (8-10 individuals)
- Individual interviews are conducted by VP of Institutional Planning (or risk officer)
- Interviews are one hour in length

...Grounded in Strategic Objectives

- Risk discussions are limited to identifying key risks to strategic objectives¹
  - *Strategic Objective*: Increase 4-year graduation rate from 70% to 75%
  - *Risk*: Insufficient Gen Ed Courses to Meet Student Demand
- Risk discussions are not limited to participant’s functional area

Initial risk register consists of 30-40 risks

¹ Progressive institutions recommend limiting list of strategic objectives to ~15. Otherwise, it becomes difficult to limit risk discussion to one hour of participant’s time.

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Source: Education Advisory Board interviews and analysis.
Practice #2: Board-Limiting Charter

Typical University Problems
CBOs are challenged to identify the right level of Board involvement, trying to manage the tension of keeping Board members abreast of institutional risks while also trying to prevent “over-involvement” by Board.

Best Practitioner Approach
Progressive institutions clearly delineate in Board Committee charters that the process of managing risks is central to the Board while actual management of risks remains in the hands of the university administrators.

KeyAnimating Principles
Clearly-written charter delineates Board responsibilities and university administration responsibilities.
Questions (and Concerns) On Both Sides of the Aisle

Both CBO and Board Members Have Questions Over Board’s Involvement

**CBO’s Questions**

- What are the Board’s responsibilities in the process?
- How much information should I be sharing with them?
- What level of input should I seek from the Board?

**Board’s Questions**

- What are my duties and obligations once I’ve been informed of a risk by university administrators?
- Will I be held legally responsible by being informed of risks by management?

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Source: Education Advisory Board interviews and analysis.
Clearly Delineating Responsibilities Before It’s Too Late
Emory’s Audit Committee Charter Delineates Management and Board Responsibilities

Management Responsibilities

1. Management Manages Risk
   “Management is responsible for monitoring and managing risks.”

2. Management Determines When to Involve Board
   “Management will exercise its professional judgment in determining when to bring risks to Board attention, which may be as risks evolve…”

3. Management Informs Audit Committee of Top Risks
   “Management will provide the Audit Committee with a regular update on the ERM process including a ranked risk listing.”

Audit Committee Responsibilities

4. Audit Committee Oversees Risk Management Process
   “Audit Committee should review the [risk] listing and satisfy itself that management has an effective approach to identifying and managing risks.”
Keeping the Audit Committee Informed of Risks

*Emory’s Three-Step Process to Inform Its Audit Committee of Top Risks*

**Steering Committee**

- Steering Committee selects 50 key risks to report to Executive and Audit Committees and to monitor throughout the year
- Risk management owners are assigned to key risks
- Steering and Executive Committees evaluate feasibility of risk mitigation plans

**Audit Committee**

- Audit Committee reviews risks annually (usually in November)
- More periodic updates can be provided at Audit Committee’s request

**Selected Board Committees**

- Each of the key risks is mapped to one of eight Board Committees
- Individual meetings will be held with Board Committee to brief them on risk mitigation efforts
- Charters for all Board Committees are currently being revised to clearly delineate responsibilities, limited to oversight and awareness

Roundtable research identified average university reports 5-10 risks

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Source: Education Advisory Board interviews and analysis
II. Fast-Cycling Risk Identification

How do we fast-cycle risk identification?

Practice #3: Peer-Sourced Risk Register

Practice #4: Independent Risk Identification Forum

Practice #5: IT and Fixed Asset Interdependency Assessment
Practice #3: Peer-Sourced Risk Register

Typical University Problems

Many institutions spend months or even years conducting an exhaustive (and exhausting) risk identification process on their campus, only to come up with an unwieldy and overly-detailed risk register. This is a very time-consuming approach and generally does not uncover any new risks that CBOs were not already aware of.

By the end of the process the campus suffers from campaign fatigue, having spent significant time on risk identification, leaving little momentum for risk treatment.

Best Practitioner Approach

Progressive institutions fast-cycle the risk identification process by leveraging risk registers from peer institutions. The peer-sourced risk register is used as an initial straw man with campus representatives, with the objective of winnowing out risks that are not applicable to the institution and adding in risks not included in the straw man that are applicable to the institution.

Key Animating Principles

Risk registers pulled from peer institutions help engender trust and legitimacy among campus representatives about the initial straw man.
Don’t Try This at Home

*Traditional Risk Identification Efforts Require Lots of Time but Lead to Few Insights*

**Traditional Risk Identification Process**

- Institution spends 18-24 months interviewing executives, directors, and frontline managers, asking, “what keeps you up at night?”

- Lack of risk thresholds result in identification of risks of low magnitude (i.e., everything but the kitchen sink is identified as a risk) creating risk register inflation

- Institution surfaces 200-500 risks at institution- and unit-level

**Little Value Added**

“We spent approximately 18 months conducting risk interviews and surveys with over 100 campus employees. While the process raised awareness among campus constituents about the prevalence of risks beyond their silos, it didn’t surface any new institutional level risks – nothing that our President, Provost, and I couldn’t have identified on our own.”

*Associate Vice Chancellor, Public, Research University*
Do Try This at Home

*Peer-Sourced Risk Register Fast Cycles Risk Identification, Leaving More Time for Risk Treatment*

Creating a Risk Register Straw Man...

...And Vetting with Stakeholders

Peer-sourced risk register is used as a straw man for risk committee with an emphasis on identifying:

- *Are there risks that aren’t applicable to our campus?*
- *Are there risks that are idiosyncratic to our institution and not reflected on the initial straw man?*

**UC System:** 20 risk registers  
**University of Ottawa:** 2 risk registers

Source: Education Advisory Board interviews and analysis.
Practice #4: Independent Risk Identification Forum

Typical University Problem

Institutions rely on internal stakeholders to identify institutional risks, often missing or miscalculating key external risks not readily identifiable from within the four walls of the campus (e.g., liquidity risk before the financial meltdown).

University of Alberta

Best Practitioner Approach

The University of Alberta holds an annual expert forum to review institutional strategy and risks. The experts, mostly from outside the university, bring a fresh set of eyes and unbiased perspective to key areas of university risk, in particular identifying important external developments that could affect the university.

Key Animating Principle

The combination of expertise and outsider status means the forum can render both well-informed and frank assessments of top external risks to the institution.
Noise vs. News
Campus Leaders Face Tough Task of Evaluating External Developments

No Shortage of Headlines... ...But Questions Remain

Changes Afoot in Financial Aid Programs
Online Ed Providers React to New Legislation
Chinese Economy Closes Out Banner Year
Local Real Estate Market Remains Stagnant

Critical Questions for the Institution

What’s just hype, and which external developments have the potential to significantly affect us (negatively or positively)?

What are the big shifts in the industry that aren’t making the headlines?

What are the major external threats to the success of our new programs?

Can we trust the economic and demographic assumptions we’re making in our short- and long-term planning processes?

Source: Education Advisory Board interviews and analysis.
# Getting the Inside Scoop on Outside Trends

*Expert Forum Provides Insight into Risks Beyond the Campus’s Four Walls*

**Economic Experts**

<table>
<thead>
<tr>
<th>Craig Wright</th>
<th>David Trick</th>
<th>Felix Chee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Economist</td>
<td>Former Assistant Deputy Minister for Postsecondary Education, Ontario</td>
<td>Chief Representative, China Investment Corp., Toronto Office</td>
</tr>
<tr>
<td>Royal Bank of Canada</td>
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</tbody>
</table>

**Government Affairs Experts**

<table>
<thead>
<tr>
<th>Leo de Bever</th>
<th>Roger Gibbins</th>
<th>Gordon Houlden</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>President and CEO</td>
<td>Director</td>
</tr>
<tr>
<td>Alberta Investment Management Corporation</td>
<td>Canada West Foundation¹</td>
<td>University of Alberta China Institute</td>
</tr>
</tbody>
</table>

**Role**

- Verify investment and interest income assumptions in budget
- Verify provincial funding and regulatory assumptions
- Describe implications of latest changes to national and provincial higher education policy
- Opine on business trends (e.g., oil and gas price levels) affecting the province and university
- Help build awareness in the business community of university activities

Private Sector Experts Rotate Year to Year Based on Institutional Objectives

¹ The Canada West Foundation is a non-partisan think tank dedicated to researching and voicing issues of concern to western Canadians.

Source: Education Advisory Board interviews and analysis.
Getting Them There
“How To” Guide on Recruiting Experts

Cast a Wide Net

- 20 to 25 invitations issued, with expectation that half will accept and two-thirds will attend
- No honoraria are offered
- Compensation is limited to travel reimbursement and out-of-pocket expenses

Leverage Institution’s Senior Leadership

Depending on the prominence of the expert or existing relationships with campus personnel, the invitation may be issued by:
- Provost,
- VP for Finance and Administration
- Chief Development Officer
- President

Limit Participants’ Time Obligation

Forum requires only one day of participants’ time limiting time away from office

Source: Education Advisory Board interviews and analysis.
Win-Win-Win Value Proposition

Independent Risk Forum Unearths New Risks, Validates Assumptions, Engenders Confidence

1. Surfacing the “Known Unknowns”

2. Validating Risk Assumptions

3. Instilling Confidence at Unit and Board Level through Expert Vetting

**Budget Drivers**

- Interest Rates & Investment Income Impact
- Construction Labor Shortage & Capital Cost Impact
- Oil Prices & Provincial Appropriation Impact

**New Risks (Illustrative)**

- Changes in adult student demographics could hurt enrollment in online courses
- Changes to provincial support could help some research areas while cutting funds for others

**Groups Impacted**

- Faculty Association
- Staff Administrators
- Board of Governors

Source: Education Advisory Board interviews and analysis.
Practice #5: IT & Fixed Asset Interdependency Assessment

Typical University Problem

Few institutions have the ability to identify interdependencies between buildings or IT systems in case of an adverse event, leading to an inability to prioritize responses after a major event and a longer and more expensive recovery.

Southern Methodist University

Best Practitioner Approach

Southern Methodist University conducted a business impact analysis of their IT and fixed assets, identifying interdependencies and predicting institutional costs of a major risk failure.

Key Animating Principle

Institution-wide, centrally-led approach means administrators can identify interdependent risks and are armed with sufficient information to rationally prioritize post-event responses.
Not Enough Spots in the Lifeboat
Seemingly Sound Preparedness Plans for Fixed Assets Have Potential to Clash

“What would we do if multiple buildings were shut down at the same time?”

Philosophy Department, Murphy Hall
Space Contingency Plan

“In the event of a building shutdown, the Department of Philosophy will move classes and faculty offices to the vacant wings of Smith Hall until full service is restored.”

Economics Department, Wright Hall
Space Contingency Plan

“In the event of a building shutdown, the Department of Economics will move classes and faculty offices to the vacant wings of Smith Hall until full service is restored.”

Campus Space Crunch Adds New Urgency to An Old Problem

“Coordinating contingency plans for space usage has always been an issue in higher ed. What’s different now is that, due to the growing “space crunch,” campuses have less and less free space available to use in a pinch.”

Risk Manager
Private University

Source: Education Advisory Board interviews and analysis.
Who Gets “Re-booted” First?

When Information Technology Vulnerabilities Aren’t Quantified, Campus Leaders Can’t Prioritize Recovery Efforts

“What would we do if multiple business applications went down at the same time?”

Not measured at most institutions:

• **Operational and service impact** on key functions if an application is down for 48 hours or more

• **Per hour or per day cost** to the institution for an outage of each business application

• **“High impact periods”** during the year in which outages would have greater negative effect on certain functions (e.g., Admissions in January)
Business Impact Analysis: A Three-Step Approach

Spotlighting the “First-Recovery” Needs of Critical IT and Fixed Assets

Surfacing Weaknesses

1. Infrastructure Review
   - Top 10 Fixed Assets
     - Main Administration Building
     - Heat Plant
     - Stadium
     - Library...
   - Top 20 IT Applications
     - PeopleSoft
     - SIS
     - Library Software Applications...

Analyzing Impacts

2. Business Process Analysis
   - Operational impact of a major event on:
     - Financial aid
     - Admissions
     - Housing management
     - Cash disbursements
     - Research administration

3. Financial Analysis
   - Property Damage
   - Lost Awards
   - Business Impact
     - Number of students directly impacted
     - Enrollment impact
     - Restoration period of facility/process
     - Existing business continuity plan

Example

- Infrastructure Weakness: Handful of servers that hold bulk of data from Student Information Systems (SIS) vulnerable to outage
- Processes Impacted: Dozens of units use SIS, including Admissions (with peak usage in fall and early winter) and Financial Aid (with peak usage in winter and spring)
- Institutional Cost: Each day server down = $X in tuition lost from decrease in enrollment

End Product: Recommendations for treatment prioritization based on size of potential financial loss and severity of process interruption

Examples are illustrative only.
# Centrally-Led Audit Identifies Conflicts and True Costs

*Allows Rational Discussion Beforehand and Avoids Scramble Later*

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Risk Sub-Category</th>
<th>Cost and Business Impact Assessment (Illustrative)</th>
<th>University Decision (Illustrative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical Plant and Facilities</td>
<td>Physical Plant</td>
<td>Student Housing: -$$,$$$ to restore power -XXX students in affected dorm</td>
<td><strong>Student housing</strong> receives backup power priority when classes are in session during hot-weather months; <strong>Sensitive research labs</strong> always receive continuous power</td>
</tr>
<tr>
<td></td>
<td>Space Usage</td>
<td>School of Engineering: -$$,$$$ in research awards lost from bldg shutdown -XX research collaborations impacted from shutdown</td>
<td>University negotiates on behalf of <strong>specialized lab and engineering buildings</strong> for contingency space at other nearby campuses; <strong>Humanities and sciences</strong> units are responsible for developing their own plans</td>
</tr>
<tr>
<td>Information Technology</td>
<td>Business Applications</td>
<td>Admissions Software: -$$,$$$ to recover -XX accepted students lost, by season</td>
<td><strong>Admissions</strong> receives top recovery priority in fall and early winter months; <strong>Financial Aid</strong> receives priority in winter and spring</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Financial Aid Software: -$$,$$$ to recover -XX accepted students lost, by season</td>
<td></td>
</tr>
</tbody>
</table>

**Result:** University decision makers have needed information to intelligently reconcile conflicting priorities.
External Help for Conducting an IT and Fixed Asset Interdependency Audit

Provider Profiles

**FM Global**, a worldwide insurance and loss control services firm, offers Business Impact Analyses as part of their insurance package with some clients, including universities and colleges.

**Business Continuity Consultants International** provides analysis and advice on risk reduction and recovery planning around business continuity issues, including IT.
III. Assessing and Prioritizing Risks

*With lean administrative resources to deploy towards risk treatment, how do we prioritize the risks that need most attention?*

Practice #6: Multidimensional Impact Assessment

Practice #7: Targeted Likelihood and Impact Assessments

Practice #8: Risk Velocity Assessment

Brown University  
Yale University  
Private Sector
Practice #6: Multidimensional Impact Assessment

Typical University Problems
Institutions find it difficult to get common agreement on how to define low, medium, and high impact risks, considering the multiple “bottom lines” higher education has compared to the private sector. This makes it difficult for risk committees to find a common definition for impact as it relates to human, mission, or financial impact.

Brown University

Best Practitioner Approach
As part of its risk assessment process, Brown University moved past the one-dimensional “impact” analysis and developed three impact metrics – human, asset, and mission impact. This allows the risk committee to evaluate each risk along each impact dimension.

KeyAnimatingPrinciples
Clear identification of various institutional impacts (e.g., financial, human, and asset) alleviates committee debates over “what’s most important to the institution?”
A Difference of Opinion
Unlike Private Sector, Higher Ed Has Multiple “Bottom Lines”

Fierce Debates Over What’s a “Priority” in Risk Discussions

CBO
“While not ideal, the financial cost to the university is the best way we have to quantify the impact of risk.”

VP for Student Affairs
“How can you put a dollar value on your most important assets, people—students, staff, and faculty?”

VP for Facilities
“We need to keep in mind that some of the pieces of art in our buildings are priceless. How will we put a value on that?”

Provost
“Our university’s teaching mission doesn’t have a dollar value, so how can we put a number on pedagogical risks?”

Source: Education Advisory Board interviews and analysis.
Assessing Risks Based on Various Impacts

Brown’s Risk Prioritization Gives Weight (and Credence) to Different-in-Kind Impacts

Brown’s Institutional Impact Metrics

Risk Factor = \left[ \frac{\text{Probability}}{3} \right] \times \left[ \frac{\text{Human Impact} + \text{Asset Impact} + \text{Mission Impact} + \text{Preparedness}}{12} \right] \times 100

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Source: Education Advisory Board interviews and analysis.
Clarifying “Impact” by Providing a Common Definition

Brown University’s Risk Assessment Definitions

<table>
<thead>
<tr>
<th>Human Impact</th>
<th>Asset Impact</th>
<th>Mission Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Possibility of injury, illness or death to Brown community members, visitors or guests</td>
<td>Physical and/or financial losses and damages to campus facilities, infrastructure, reputation, and/or balance sheet</td>
<td>The disruption of and/or adverse impact of University operations, including the essential mission of research and teaching</td>
</tr>
<tr>
<td>0 = Not Applicable</td>
<td>0 = Not Applicable</td>
<td>0 = Not Applicable</td>
</tr>
<tr>
<td>1 = Injuries are treatable with first aid</td>
<td>1 = Isolated, minimal damage or loss, or none at all</td>
<td>1 = No disruption or adverse impact to University operations</td>
</tr>
<tr>
<td>2 = Injuries/illnesses treatable with medical care, injuries do not result in permanent disability or disfigurement</td>
<td>2 = Sporadic damage or loss to building and facilities and/or other assets, including reputational damage</td>
<td>2 = Faculty, students, staff temporarily unable to carry out University operations</td>
</tr>
<tr>
<td>3 = Injuries lead to permanent disability, disfigurement, and/or death</td>
<td>3 = Widespread, critical financial loss and/or damage to buildings, infrastructure, and/or other assets, including reputational damage</td>
<td>3 = Significant damage to campus and/or loss of other essential facilities or people requiring temporary or permanent suspension of normal daily University operations</td>
</tr>
</tbody>
</table>

Source: Education Advisory Board interviews and analysis.
Practice #7: Targeted Likelihood and Impact Assessments

Typical University Problem

Senior administrators on risk committees tend to underestimate likelihood of risks, while frontline staff tend to overestimate impact, burying important operational risks while elevating unit-level concerns.

Yale University

Best Practitioner Approach

Yale University asks frontline managers and staff to assess the likelihood of risk failures while senior administrators separately assess the institutional impact of those same risks.

Key Animating Principle

Staff are asked only to assess the aspect of risk with which they are most familiar.
No One’s An Expert in Everything

*Biases in Traditional Risk Assessment Skew Results*

**Senior Administrators**
- Not always familiar with details of how risk controls in their unit actually work “on the ground”
- Tend to underestimate likelihood of risks in their unit, assuming written policies are being followed

**Frontline Staff**
- Assume that any risk that would significantly affect their job duties is high impact
- Tend to overestimate impact of risks by conflating individual impact with institutional consequences

**Risk Clustering**
- Bias Towards Low Likelihood, High Impact Events
  - Potential to miss important risks or overemphasize minor threats
  - Hard to begin mitigation initiatives, not knowing in what areas to focus investment

Source: Education Advisory Board interviews and analysis.
Different Eyes for Different Risk Components

Senior Administrators and Frontline Staff Assess Only What They Know Best

Risk Assessment

For Frontline Staff Only

Likelihood

Health Services Risks\(^1\)
- Prescription drug theft
- Staff injury
- HIPAA breach
- Unrestricted access to biohazards

Impact

Health Services Risks\(^1\)
- Prescription drug theft
- Staff injury
- HIPAA breach
- Unrestricted access to biohazards

For Senior Administrators Only

1 Examples are illustrative only.

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Source: Education Advisory Board interviews and analysis.
Developing the Risk Likelihood Survey
A Deeper Dive into the Likelihood Assessment Process

Survey Development Tips from Yale

**Improve Outcomes**
- Survey-takers evaluate risks in their area only (ten total areas across the university)
- Survey includes an “I don’t know” option so survey-takers aren’t forced to make up answers

**Limit Time Responsibility**
- Survey-takers evaluate forty risks or less

**Increase Participation**
- Area leaders (not Risk Management) send survey to all employees in their area
- Survey avoids use of first-person to assure survey-takers that they are not evaluating themselves

**Identify Gaps in Risk Perspectives**
- Individuals remain anonymous, but results can be analyzed by job type, including management, clerical, and student
Priorities Set Aright

Targeted Prioritization Model Re-Orders Risk Register

**Correcting Risk Likelihood Measurements**

<table>
<thead>
<tr>
<th><strong>Rx</strong></th>
<th>Prescription Drug Theft¹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What Senior Administrators Miss:</strong></td>
<td>Assume cabinet and lab locking policies are being followed</td>
</tr>
<tr>
<td><strong>What Survey Reveals:</strong></td>
<td>Frontline staff know that valuable cancer treatment drugs are not properly safeguarded</td>
</tr>
<tr>
<td><strong>Position After Reprioritization:</strong></td>
<td>Moves Up (Higher Likelihood Score)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Health Services Risk Register¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
</tr>
<tr>
<td>2.</td>
</tr>
<tr>
<td>...</td>
</tr>
<tr>
<td>13.</td>
</tr>
<tr>
<td>14.</td>
</tr>
<tr>
<td>...</td>
</tr>
<tr>
<td>26.</td>
</tr>
</tbody>
</table>

**Correcting Risk Impact Measurements**

<table>
<thead>
<tr>
<th><strong>Staff Injury¹</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What Frontline Staff Miss:</strong></td>
</tr>
<tr>
<td><strong>What Survey Reveals:</strong></td>
</tr>
<tr>
<td><strong>Position After Reprioritization:</strong></td>
</tr>
</tbody>
</table>

- **What Moves Down:** Risks that impact the satisfaction or safety of frontline employees but don’t require enterprise-level attention
- **What Moves Up:** Risks for which senior administrators underestimate likelihood because they assumed proper safeguards and controls were in place

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¹ Risks listed are for illustration purposes only.

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Source: Education Advisory Board interviews and analysis.
Practice #8: Risk Velocity Assessment

Typical University Problems

Colleges and universities overinvest in mitigating risk items which may naturally decrease over time, or miss risks that will likely trend up in the future.

Private Sector

Best Practitioner Approach

Private sector corporations include “risk velocity” on their risk prioritization, which asks risk administrators to estimate those risks that have the highest speed of onset.

KeyAnimating Principles

Risk velocity factors are applied to a finite period, generally over a two to five year period.
When Everything Seems a Priority
Universities’ Traditional Assessment Methods Fail to Highlight Risk Velocity

Average University’s Risk Assessment Metrics

Staff Succession Planning

Likelihood: 3
Impact: 2
Risk Score: 6
Risk estimated to materialize in 3-5 years

Inability to Meet Enrollment Targets

Likelihood: 3
Impact: 2
Risk Score: 6
Risk estimated to materialize in 1-3 years

Source: Education Advisory Board interviews and analysis.
Spotlighting Urgency

*Risk Velocity Helps Identify Risks that Need Immediate Attention*

Progressive University’s Risk Assessment Metrics

1. **Staff Succession Planning**
   - Likelihood: 3
   - Impact: 2
   - Velocity: 1
   - Risk Factor: 6

2. **Inability to Meet Enrollment Targets**
   - Likelihood: 3
   - Impact: 2
   - Velocity: 3
   - Risk Factor: 18

**End Product:** Institution focuses scarce administrative resources on enrollment target risk.

1 Risk velocity is defined as speed of onset.

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Source: Education Advisory Board interviews and analysis.
More Than a Year’s Work

Upcoming Webinar Sessions

• Part III: Dec 13th 1-2 pm ET
  • Increasing Campus’ Risk Awareness
  • Instilling Accountability & Incenting Action

Implementation Road Map and Tools

• Sample governance structures from a spectrum of institutions
• Sample risk register
• Illustrative Board reporting packages

Best Practice Report

• Completed publication sent to all members in early October
• For additional copies, visit our website at http://www.eab.com/Research-and-Insights/Business-Affairs-Forum

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