RISK Management

AT CANADIAN UNIVERSITIES

Risk management has become an increasingly important activity in the Canadian post-secondary sector over the past 10 years. The impact of events such as school shootings and the recent meltdown in markets, along with more stringent compliance expectations, have brought to the fore the need to manage risk effectively.

Nonetheless, the maturity of risk management programs varies widely from one institution to another, encompassing everything from a single employee responsible for buying insurance to a formal institution-wide system of pro-active identification, evaluation and mitigation of risk. "Generally, the post-secondary sector has been slower than other sectors in entering this area, but risk management is growing tremendously in momentum," says Philip Stack, Associate Vice-President, Risk Management Services at the University of Alberta (U of A).

Part of that momentum is due to the evolution of governance, with risk management seen as a key indicator. Members who sit on the Board of Governors are often leaders in the business world, bringing with them an appreciation for risk management.

In November 2009, the international standards organization recognized the importance of formalizing risk management by issuing a list of principles, ISO 31000, based on an existing Australian/New Zealand model of risk management used widely in business and industry. "Since that came out, we have seen more interest in risk management from institutions," says David Foley, President of Risk Smart Consulting Inc., which advises the higher education members who cooperatively own Interuniversity Services Inc. in Atlantic Canada.

The ISO document outlines a list of best practices to guide organizations in establishing a structured risk manage-

ment program. One of the key guiding principles is the necessity of high level leadership. "Ultimately, the board will hold the president accountable," says Foley. There must be a firm commitment from both executive and board in order for an effective risk management program to proceed.

Without the leadership of senior management, risk management remains buried within the organization. Some universities have hired consultants to identify risk in the organization. But without leadership from the top to move information forward, results are likely to become just another report parked on the shelf.

"Senior management has to identify risk management as an important priority, while providing the authority and resources to do what needs to be done," says Keith Shakespeare, Chief Operating Officer for the Canadian University Reciprocal Insurance Exchange (CURIE). "Until senior management gets involved, nothing much happens."

But, that is only the first step. Shakespeare notes that some senior managers only focus on whether risks can be insured. "Insurance becomes a get-out-of-jail-free card," explains University of Ottawa's Director of Risk Management and Chair of CAUBO's EH&S Committee, Michael Histed. He points out that, while insurance can address financial loss, it is ineffective at repairing a university's reputation.

"It is just one tool to manage risk," agrees Mark Aiello, Risk Assessment Practice Leader at Marsh Risk Consulting. "It does not do anything to prevent risk."

In other institutions, the executive takes a leadership role in risk management only when a crisis has already occurred. Again, this approach is reactive rather than proactive, ad hoc rather than formalized. So is focusing on meeting regulatory compliance. If senior managers want to establish an effective and robust risk management program, they must first define risk more broadly than an event, a regulatory requirement or something to be insured, says Aeillo. Only by identifying all institutional risk can universities decide which risks they want to assume and manage.

By their very nature, post-secondary institutions include a wide spectrum of risks, many of which cannot be controlled or insured. This reality often prompts senior management to view risk only as an obstacle to what the institution wants to do. "Initially, I think there was a fear factor about the term risk management among institutions," agrees Histed. "There was a feeling we were going to hold back research by demanding that all risks be eliminated."

But, research, he points out, is all about taking risks. Instead of seeing risk as a negative factor, senior management needs to define risk broadly as an inevitable part of opportunity. "Taking on risk is at the core of what we are and what we do," says Stack at the U of A. "It is important to develop a fundamental understanding that, particularly for research intensive universities, risk is a good thing. It is what drives us. It is essential to exposing students to an environment that is interesting, dynamic and challenging. But, we need to support taking on risks in a managed way."

"As universities further refine their approaches to risk management, they are better able to avoid unanticipated surprises and take advantage of opportunities," expounds Foley. He adds that senior managers need to look at risk management not only as an operational issue, but as an important part of strategic planning.

"Universities must align risk management with their strategic plan to ensure that what they do and how they operate guides them to achieving their strategic objectives," summarizes Aeillo.

The U of A, for instance, wanted to ensure that it was managing risk effectively to meet the strategic needs of an aggressive, forward-looking vision that sees the institution competing internationally, based on an established reputation. To accomplish these goals, senior management spearheaded growth in the university's internationalization, research and physical infrastructure while leading the development of a robust framework to manage the risks associated with each of these activities. As a result, the U of A has been able to meet its strategic objectives without facing unmanageable emergencies, reputational issues or financial catastrophe.

"The actions you take are defined by the goals you set," says Aiello. "Often, organizations do not progress beyond a certain level of risk management implementation. Part of the reason is that they have not planned it properly." He notes that senior management must first determine "why" they are establishing a risk management program before proceeding.

"We started by asking what practical value this process would add to the management of the university," explains Nowell Seaman, Manager, Risk Management and Insurance at the University of Saskatchewan (U of S). "Often, universities do not give enough thought to why they want to do this. If you are confident about your risk management capacity and capability, you should, at the very least, understand how your key risks relate to one another and where you can take risks successfully."

In order for any risk management program to be effective, institutions must also determine their risk appetite and risk tolerance. According to the International Institute of International Auditors, "Both risk appetite and risk tolerance set boundaries of how much risk an entity is prepared to accept. Risk appetite is a higher level statement that considers broadly the levels of risks that management deems acceptable, while risk tolerances are more narrow and set the acceptable level of variation around objectives."

"That tells us how much attention we will need to direct to each risk to manage it effectively going forward," says Stack, noting that the U of A does not have a large amount of any one kind of risk. Setting risk tolerance and appetite creates a screening mechanism that correlates with potential impact and frequency to evaluate risks as they are identified. For instance, an earthquake would rate low in frequency, but high on impact, while minor university-owned auto accidents rate higher in frequency, but lower in terms of impact.

To effectively identify risks, institutions need to use a formalized framework rather than an ad hoc approach, as well as an institution-wide register that systematically identifies risks across the entire university. The U of A used survey tools, town halls, interviews, and an environmental scanning process to identify 160 different risks that could impact its strategic objectives. Besides rating the risks, the frame-

work records information such as the risk owner and any mitigation strategies currently in place, then flags those risks that need more attention. As the framework has matured, 10 high institutional risks have been extracted from the process.

Meanwhile, the U of S conducted workshops and interviews with key managers to identify risks, which were then entered into a risk inventory or risk register. "We realize that we have a lot of risk management already going on at the operational level," says Seaman. "Our risk register does not pick up every granular risk out there. It is meant to identify and assess the critical risks, and the mitigation we need to be doing to effectively address them. Universities have always invested significant resources in managing risk and continue to do so, but now they are compelled to take a more structured, explicit approach."

He adds that, although the U of S initially engaged a consultant, the process for identifying risk has to be the university's own process. "Consultants will help gather and organize the information," he stresses, "but it is the university that has to identify and understand those risks." In fact, the process is now completely managed in-house.

Foley also advises ISI's member universities to adopt a process that suits their desired outcomes and works with available resources. The fundamentals of the framework must be consistent with the focus, size, location, complexity and culture of the organization, he insists.

"We took what Deloitte had done and made it ours," confirms Histed at the U of O. "We took the risks identified and re-evaluated them based on our own internal knowledge of the institution."

Nor is this a one-time exercise. The risk register should be part of an ongoing, dynamic process that is updated on an annual basis. "Universities push forward with new discoveries and departments and expand research capacity that takes them in new directions with new risks," Stack points out, adding that new legislation and government policy also affect the register. At the same time, existing risks are evaluated using performance measures to determine whether they are being managed effectively. The U of A reports results of the review annually to both the Audit Committee and to other board committees which might be linked to particular risks.

The U of A's Enterprise Risk Management Committee meets on a quarterly basis to monitor change more closely and assist senior executives to monitor risk on an ongoing basis. "We have the mechanisms in place to identify emerging risk, so we can be as proactive as we can by taking the appropriate steps to manage it," says Stack.

The creation of an enterprise-wide, cross-functional group is essential to driving and guiding implementation of mitigation strategies and control functions at an operational level. An institution must identify risk champions, key leaders from all stakeholders across the organization, including both the administrative and academic sides. "Most risk management and mitigation is accomplished by those who are identified as the risk coordinators," says Seaman, adding that a formalized risk management framework defines how often risk leaders gather information, to whom they report it and how often they do so. "We rely on the identified leader in each area to provide updates on what is happening in terms of risk in their area and to include mitigation activity in their management and budget planning."

The biggest challenge, he continues, is providing meaningful direction to *all* members across the institution as to risk assessment, tolerance and mitigation. "To date, the focus has been very much on the enterprise risk process," agrees Histed. "The focus is now to drill down further to faculty and services."

Universities cite ineffective communication and engagement as the greatest obstacle to moving beyond a formalized framework to a more mature, fully integrated risk management program. "I think the biggest challenge we all face," agrees Stack, "is ingraining risk-management into the day-to-day culture of the organization. It is something that requires a lot of time and energy."

The U of A is trying to create this culture through such measures as integrating risk management information into staff, board and student orientations, creating easily accessible e-learning materials, and holding enterprise risk management symposiums open to the university community.

Instilling the attitude that risk management is everyone's responsibility involves getting people to ask risk-related questions before they do something, says Janet Stein, Director, Risk Management at the University of Calgary (U of C) and the Chair of the CURIE committee on risk management. "They start to see things from a different perspective," she explains. "We are not telling people they cannot do something, just that there are components they may need to address before they can do it."

She adds that everyone must also participate in flagging risks as they emerge. "We may be the experts on process," she notes, "but other people have the actual knowledge. Information needs to roll up from the bottom as well as down from the top."

"That is not to say there are not many operational risks managed on a day-to-day basis," adds Stack, "but we rely on our departmental practices and procedures to manage those." Integrating risk management into policies and procedures can be an effective communication tool as well.

Some of those procedures are as simple as reviewing contracts from a risk management perspective to ensure that risk is assumed by the appropriate party. "If you have done your analysis properly, you can avoid some of the exposure to risk," says Shakespeare at CURIE.

Stein notes that one of the U of C's goals is to integrate risk management into decision-making at all levels. "We are not completely there yet," she says, "but a lot of our faculty and management already do this. There can be some negative consequences to taking risks, but there can also be benefits. You need to know both in order to make the decision whether or not to move ahead."

Integrating risk management into decision-making is one of the best practices expounded by the CURIE Risk Management Committee, which Stein currently chairs. Composed of risk managers from across the country, the committee makes recommendations on both process and content. Recent webinars have focused on

such issues as basic contracts and plans are in place to offer them on areas such as international student placements and construction. CURIE also offers members access to a library of risk-management related materials and participates in the annual Risk Management Society (RIMS Canada) Conference.

"There is a lot to be gained from collaboration," says Stack. In fact, an initiative between the U of A and MacEwan University, supported by Alberta's Ministry of Advanced Education and Technology, is bringing together all of the province's post-secondary institutions in order to leverage expertise and help smaller organizations maximize the use of resources. Outcomes have included joint training on ISO 31000 principles in Enterprise Risk Management, as well as a provincial symposium on emergency preparedness practices.

Histed notes that, until CAUBO's Environmental Health and Safety Committee started focusing on risk management, there was no national body to which universities could turn to for collaboration on this issue. As the chair of the committee, he hopes that more universities will turn to CAUBO as a resource.

In Atlantic Canada, although ISI has an active risk management list-serve, only about one third of members are actively pursuing a formalized comprehensive risk management structure. "In the last 18 months, there has been a shift in those who had a more reactive approach," notes Foley. "Now, the other two thirds of our members are at the point where they recognize the need for an enterprise-wide approach."

TOP 10 RISKS

(in order of materiality)*

AMONG CANADIAN UNIVERSITIES AND COLLEGES

UNIVERSITIES	COLLEGES
1. Uncertainty of funding	1. Uncertainty of funding
2. Labour Relations	2. Security of information
3. Competition for students	3. Competition for students
4. Security of information	4. Employee health and safety
5. Accurate delivery of course curriculum	5. Accurate delivery of course curriculum
6. Competition for qualified faculty	6. Project management (e.g., capital project, etc.)
7. Campus security (e.g., entrance to buildings, visitor induction, etc.)	7. Media/Internet use
8. Student residences	8. Labour relations
9. Employee health and safety	9. Competition for qualified faculty
10. Strategic partnerships with other educational institutions	10. External practical activities/ placements (e.g., field trips, apprenticeships, etc.)

**List compiled using information gathered from Marsh's Higher Education Risk Management Survey, conducted during the period from October to December 2010. The survey was sent to 155 Canadian colleges and universities from all provinces and territories. In total, Marsh received 56 responses, a completion rate of 36.1%.*

The level of program development among ISI members is emblematic of all Canadian universities, many of which continue to view a lack of resources as an obstacle to developing a more mature risk management program. "It is important to get around the notion that risk management is a large administrative burden," says Aeillo. "It is often just a question of putting a structure around something that is already taking place and then evolving from there." With clearly enunciated best practices making the process more approachable, there has never been a better time for the post-secondary sector to embrace enterprise risk management. As those institutions with robust programs can attest, the value is well worth the effort. UM