

AGB/NACUBO

Enterprise Risk Management Forum

June 6, 2007

Case Study

Objective

Apply risk methodology to a specific risk challenge—
international programs and operations—to deepen our
understanding of ERM

There Are Eight Interrelated Components of ERM

Eight Components	What Does It Mean and Example
1. Internal Environment	Institution's culture and ethical values as embodied, for example, in its code of conduct and senior management's statements and actions.
2. Objective Setting	Setting goals and objectives, including, for example, adopting a strategy to increase the level of federal research funding and implementing a plan to better target financial aid awards.
3. Event Identification	Recognizing and cataloguing reasonably possible internal and external events that could affect the institution's ability to achieve its objectives. For example, the strategy to grow federal research funding could be impacted by such events as regional economic factors making it more difficult to attract talented researchers to a campus.
4. Risk Assessment	Assessing risks by, for example, evaluating each risk from two dimensions: 1) the probability of the risk event taking place, and 2) the impact on the institution if the negative outcome of the event is not effectively reduced or mitigated.

Eight Interrelated Components of ERM, continued

Eight Components, continued	What Does It Mean and Example
5. Risk Response	How does management react to the risks? Focus first on prioritizing the most significant risks across the institution. One lesson of Katrina is institutions that had more detailed business continuity plans were better positioned to resume their activities than those that did not.
6. Control Activities	Policies and procedures that an institution establishes to help make sure that it responds to risks as intended. For example, in the area of reporting risks, additional reviews of charges to sponsored research programs could be an appropriate response to the risk of noncompliance.
7. Information and Communication	How is the right information identified and then communicated to the people in the institution who need it? Key communications around an ERM implementation would focus on the importance of the initiative, the fact that it is endorsed at the highest levels of executive management and the Board, and that each individual has a role to play in identifying and managing risks.
8. Monitoring	Monitoring takes place through ongoing activities or periodically, and corrective actions are taken when necessary. A periodic monitoring technique would be a review by internal audit, or other senior management, of the operating effectiveness of risk and control mitigation plans.

Five Categories of Risks

1. **Strategic:** High-level goals, aligned with and supporting the mission
2. **Operational:** Effective and efficient use of the institution's resources
3. **Reporting:** Reliability of the institutions external and internal reporting
4. **Compliance:** The institution's compliance with applicable laws and regulations
5. **Reputational:** Damage caused by any of the above four that spills over to how the university is valued or perceived.

Risk Identification and Categorization

The Theory:

Start with an
OBJECTIVE

IDENTIFY RISKS

- What could prevent you from meeting this objective?(What needs to happen to accomplish this objective?)
- What could go wrong as a result of meeting this objective? Which constituents would be affected? Who has primary and secondary responsibility for this risk?
- What **TYPE** of risk is this?

An Example:

OBJECTIVE: Reorganize research facilities to increase research productivity

RISKS AND RISK CATEGORIES

Financial: True cost of reorganization may not be projected, resulting in unanticipated expenditure and department allocations.

Operational: Faculty "productivity" metrics will require determination. Faculty turnover may result from strategic initiative implementation.

Risk Assessment

The Theory:

ASSESS RISKS - Probability

How likely is this risk to impede meeting the related objective?

(e.g. "10" - risk is certain to occur and a "1" rating means this risk is certain NOT to occur)

ASSESS RISKS - Impact

How detrimental would this risk be to the institution if it occurs?

(e.g., "10" - if this risk occurs, the institution would suffer insurmountable financial or reputation damage; "1" - this risk would cause no financial or reputation damage to the institution)

An Example:

RISK RATINGS

Financial: True cost may not be projected, resulting in unanticipated expenditures and department allocations

PROBABILITY: 5 IMPACT: 6

Operational: Faculty "productivity" metrics will require determination. Faculty turnover may result from strategic initiative implementation.

PROBABILITY: 3 IMPACT: 5

Risk Response

The Theory:

DETERMINE RISK RESPONSE

Alternatives:

- **Mitigate** – by investing in controls
- **Transfer**– by transferring or sharing it with others (e.g. insurance or cost sharing)
- **Accept**– by choosing to accept the risk (within prescribed limits)

An Example:

RISK RESPONSE

Financial: True cost of reorganization may not be projected, resulting in unanticipated expenditure and department allocations

Probability: 5 Impact: 6

STRATEGY: Mitigate

Operational: Faculty “productivity” metrics will require determination. Faculty turnover may result from strategic initiative implementation.

Probability: 3 Impact: 5

STRATEGY: Accept

Case Background

Alumni approach the university to develop an international business program in India. Their interest is two fold:

- to help train future generations of Indian students and
- introduce US students to Indian business and develop networks and ties to foster new business initiatives between India and the US

Faculty have express initial interest in the program but are divided on whether the curriculum should be a duplicate of the strong program that currently exists in the US or one developed exclusively for the Indian program

University Relations is intrigued with the idea as it may open doors for the growing Indian alumni chapter

The engineering faculty have learned of the initiative and are interested in being included in the discussions.

International Programs and Operations—Case Study

Objective: Establish a new graduate program in international business in India

Initiatives to Reach Objective:

- Select location for program
- Analyze tuition pricing strategy
- Contract with vendors for student support services
- Hire and/or redeploy faculty
- Develop relationships with foreign government
- Build or lease new facilities
- Evaluate existing alumni and development programs

Objective: Establish a new graduate program in international business

Financial Risk	Probability	Impact	Individual Responsible (Primary, Secondary)	Strategy

Objective: Establish a new graduate program in international business

Operational Risk	Probability	Impact	Individual Responsible (Primary, Secondary)	Strategy

Objective: Establish a new graduate program in international business

Strategic Risk	Probability	Impact	Individual Responsible (Primary, Secondary)	Strategy

Objective: Establish a new graduate program in international business

Compliance Risk	Probability	Impact	Individual Responsible (Primary, Secondary)	Strategy

Objective: Establish a new graduate program in international business

Reputational Risk	Probability	Impact	Individual Responsible (Primary, Secondary)	Strategy

Summary of Top Risks by Category for Our Objective: Establish a new graduate program in international business

Category of Risk	Probability	Impact	Individual Responsible (Primary, Secondary)	Strategy
Strategic				
Financial				
Operational				
Compliance				
Reputation				

Informing, communicating & monitoring

Strategies:

