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DEVELOPING A STRATEGY TO MANAGE ENTERPRISEWIDE RISK IN HIGHER EDUCATION

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DEVELOPING A STRATEGY TO MANAGE ENTERPRISEWIDE RISK IN HIGHER EDUCATION

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NACUBO and PricewaterhouseCoopers asked a group of higher education leaders to come together to discuss the topic of enterprisewide risk management in higher education. PricewaterhouseCoopers presented the results of its research on how risk management techniques have evolved over the past decade in the for-profit corporate sector. With this research and understanding as a common framework, the assembled leaders discussed the practical implications of effective enterprisewide risk management in higher education. The focus was on:

- *The definition of risk*
- *Risk "drivers" in higher education today*
- *Implementing a risk management program to effectively assess, manage, and monitor risk*
- *How to proactively engage the campus community (i.e., trustees, faculty, and staff) in a more informed dialogue regarding enterprisewide risk management*

The following paper presents risk management theory, examples of approaches being taken by the for-profit corporate sector, and the discussions held with higher education leaders as to how to manage risk more effectively in today's dynamic higher education environment.

We believe that college and university business officers play a vital role in the risk management agenda. Our objective for this paper is to frame the discussion that many business officers have already initiated on campuses across the country and to move it forward.

SECTION 1: THE DEFINITION OF RISK

THE WORD RISK IS COMMONLY USED. Executives and administrators talk about competitive risk, market risk, financial risk, operating risk, technological risk, environmental risk, regulatory risk, litigation risk, reputational risk, and political risk. In fact, risks are all around us. Needless to say, managing risks in large, complex, decentralized organizations is a significant challenge. However, before risks can be effectively managed, the organization must agree on a common definition of risk that is clearly understood throughout the organization by the board, management, and staff.

Discussion and debate around risk and related controls is not a new issue. Meaningful discussions surrounding such subjects began over ten years ago. After the Watergate revelations about illegal political contributions, legislators and regulators turned their attention to internal control, considering the controls that perhaps should have been in place to prevent the illegal actions. One result was a study by the Treadway Commission (National Commission on Fraudulent Financial Reporting), which, among other recommendations, called for a common definition of internal control. In the late 1980s, the Committee of Sponsoring Organizations (COSO) of the Treadway Commission conducted a study to define and further advance the understanding of internal controls. COSO's report, *Internal Control-Integrated Framework*, was published in 1992. It offered the following definition:

> Internal control is defined as "a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations."[2]

The COSO report helped to establish a common language around controls. Since its issuance, risk management concepts and techniques have evolved at a quickening pace in the marketplace. Prior to the COSO report, risk was generally viewed in terms that reflected primarily negative outcomes. Risk management meant making sure that an organization was adequately protected in the event of a catastrophe. Increasingly in today's environment, risk is being more broadly defined as any issue that affects an organization's ability to meet its objectives. In this light, risk management encompasses all of the operational, financial, compliance, and strategic issues that an organization might encounter in its attempt to achieve its objectives. We present five types of risk on the following page.

2 COSO Report, *Internal Control-Integrated Framework*, page 9.

THE NEW LANGUAGE OF RISK

RISK IS ANY ISSUE THAT IMPACTS an organization's ability to meet its objectives. Five types of risk include:

1) **STRATEGIC RISK IS RISK THAT AFFECTS AN ORGANIZATION'S ABILITY TO ACHIEVE ITS GOALS.** For example, a smaller, tuition-dependent college's strategy is to expand its enrollment base into new markets, while more effectively managing its financial aid budget. How can the college assess and manage its risk? How well does the college understand its competitive environment so that it can effectively attain its strategic goals?

2) **FINANCIAL RISK IS RISK THAT MAY RESULT IN A LOSS OF ASSETS.** For example, a university with a historically conservative endowment and investment philosophy decides to invest more heavily in foreign investments and private equity funds with multiple investment managers, while entering into new hedging arrangements. How does the university manage the potential market and credit risk that may negatively impact the university's investments? Will the market perform as expected?

3) **OPERATIONAL RISK IS RISK THAT AFFECTS AN ONGOING MANAGEMENT PROCESS.** For example, a university has recently implemented new administrative systems (e.g., general ledger, payroll and human resources, student systems). The systems implementation involved changes to business processes with respect to transaction processing by decentralized department administrators and staff. How does the university manage the risk that its staff are not effectively processing and monitoring transactions in the new environment? How can it put the new system into operation most effectively?

4) **COMPLIANCE RISK IS RISK THAT AFFECTS COMPLIANCE WITH EXTERNALLY IMPOSED LAWS AND REGULATIONS AS WELL AS WITH INTERNALLY IMPOSED POLICIES AND PROCEDURES CONCERNING SAFETY, CONFLICT OF INTEREST, AND THE LIKE.** For example, an Academic Medical Center (AMC) with significant research and clinical activities is responsible for complying with an ever-changing body of federal rules and regulations and their interpretation. How does the AMC ensure that its principal investigators, physicians, and staff are aware of and complying with rules and regulations?

5) **REPUTATIONAL RISK IS RISK THAT AFFECTS AN ORGANIZATION'S REPUTATION, BRAND, OR BOTH.** (NOTE THAT THIS RISK MAY RESULT FROM AN ORGANIZATION'S FAILURE TO EFFECTIVELY MANAGE ANY OR ALL OF THE OTHER RISK TYPES; IT INVOLVES EXTERNAL PERCEPTION). For example, a prestigious university is establishing several satellite campuses in Europe. The campuses will be

financed with donor funds as well as with funds received from the local country. The university's faculty will be teaching on the campuses. How does the university manage the risk that ineffective management of its new global venture might tarnish its prestigious brand?

ALL SUCCESSFUL ENTERPRISES TAKE RISKS. Shareholders and lenders entrust their capital to publicly-held companies and their boards because they seek a higher return than could be achieved by a less risky investment, such as government securities. Investors expect boards and management to demonstrate entrepreneurship and dynamic behavior—take risks, in other words—to achieve these higher returns.

Similarly, donors, staff, and other stakeholders who invest their time, talents, and resources in colleges and universities do so to further the objectives of educating students, studying the unknown, and attacking ethical and moral dilemmas. Their investment implies a desire to see the institution find innovative and more effective ways to achieve these objectives—that is, take risks.

Goals that are worthy of the struggle to accomplish them cannot be achieved without taking some risk. In personal investing, for example, the more risk one takes, the greater the potential reward—and the greater the potential loss. This is why investors are encouraged to diversify their portfolios; diversification among a variety of industries and geographies spreads the risk of a significant loss.

Companies take calculated risks in much the same way. Consider the biotechnology field, where only 7.5 percent of good ideas make it through the typical 11-year development cycle to become marketable drugs.[3] Biotechnology firms must take enough risk to earn the reward that a successful new drug will bring—an amazing 85 percent gross margin over the life of the patent—but not so much risk that all development money will be spent on any one idea.[4]

In the higher education environment, deciding how best to invest in e-business might be a good example. Dot.coms began to approach colleges and universities a few years ago about a wide variety of opportunities for partnerships and alliances. Many vendors wanted to sell their e-business solutions to institutions. Most institutions recognized the need to participate in e-business to stay competitive, but how should an institution choose from among the offers? This situation could have been approached as a risk management exercise. One downside risk was the potential embarrassment of partnering with a dot.com that failed to deliver on its promise of high quality. The institution would want to take action to mitigate this risk and to increase the chances of a good outcome.

3 Puschaver, Lee and Robert G. Eccles, "In Pursuit of the Upside: The New Opportunity in Risk Management," *Leading Thinking on Issues of Risk*, published by PricewaterhouseCoopers, page 4.

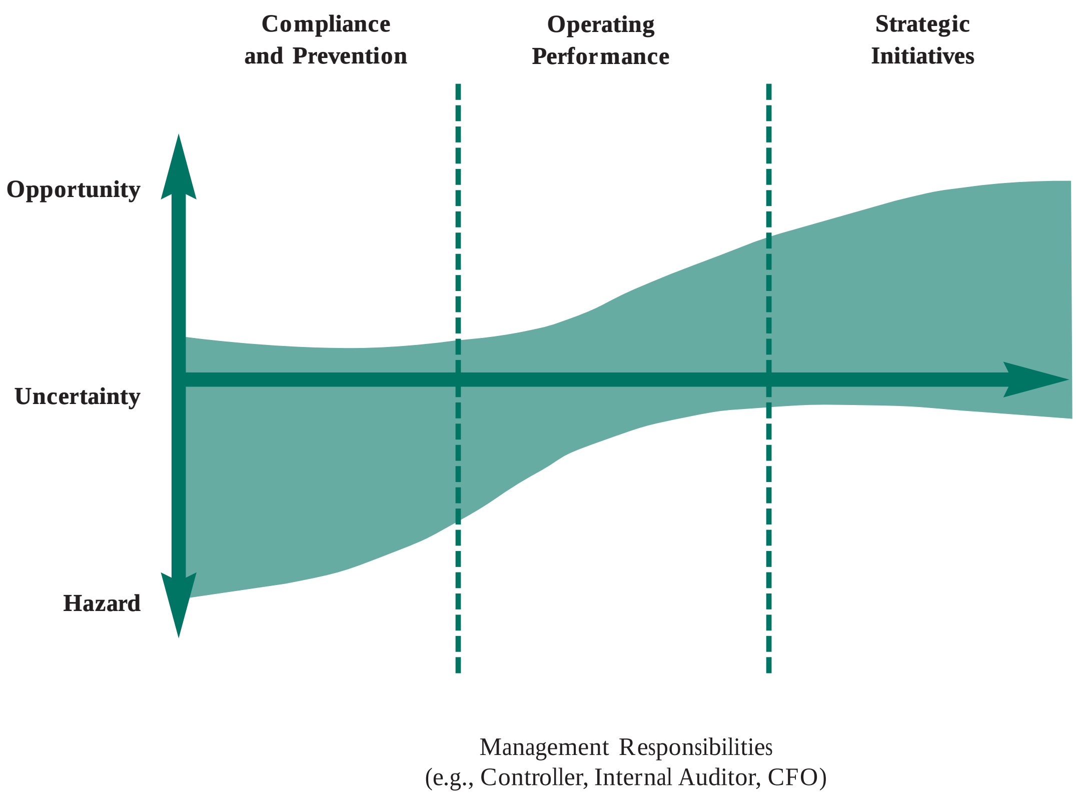
4 Ibid, page 4.

The chief risk officer at a large financial services company recognized the upside and downside potential of risk, when he offered this definition: "Risk is about bad things that do happen and good things that don't happen."[5] It is important to manage both for the downside and for the upside to enhance the possibility that good things will occur. Managing risk on the upside is an offensive action taken by management to increase the possibility of success, and often revenues. Managing risk on the downside is a defensive action to reduce the possibility of adverse developments that may cost money or cause embarrassment.

THE RISK CONTINUUM

RISK CAN BE DEPICTED ON A CONTINUUM from managing hazards to seeing risk as an opportunity, as depicted in the diagram below. Although functional emphasis and management boundaries are inherently flexible, "risk as hazard" represents the historic perspective of managers who are responsible for financial and compliance activities—specifically the controller, internal

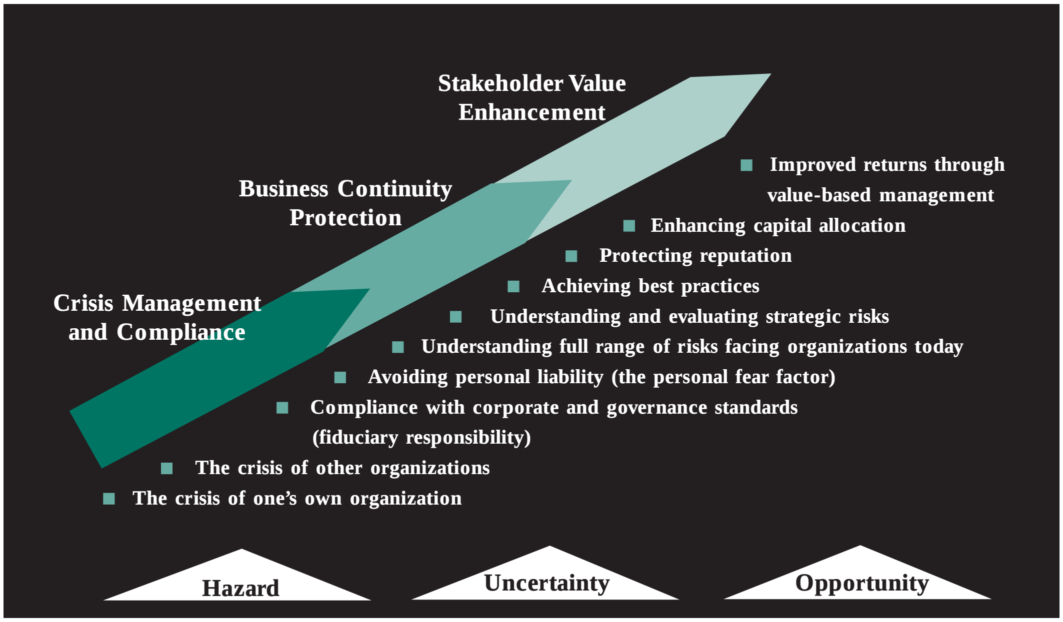
Diagram 1: THE BUSINESS RISK CONTINUUM[6]



5 Ibid, page 8.

6 Ibid, page 3.

Diagram 2: THE MARKET CONTINUUM



auditor, insurance risk manager, and compliance officer. "Risk as uncertainty" is a governing perspective of the CFO and line managers who are responsible for operations. This group searches for best practices and reacts to the control failures of their competitors by seeking to prevent them from happening in their own operations. "Risk as opportunity" often reflects the outlook of senior management and the planning staff, who largely address the outside elements of risk. Opportunity, hazard, and uncertainty—successful long-term risk management involves a balancing of all three.

HIGHER EDUCATION'S VIEW OF RISK MANAGEMENT

HOW DOES HIGHER EDUCATION VIEW risk management? Some colleges and universities equate risk management with crisis management, or they associate it with compliance risk. Some institutions focus on "managing the downside," rather than seeing risk as an opportunity. Some equate risk management with minimizing hazards, particularly those resulting from violations of university policies or of external laws and regulations. There is nothing wrong with these views of risk management. But there is much to be gained by adding a new view—one that also aims to manage the upside of risk and to see the many opportunities it presents. A balanced view of risk is best, one that tries to minimize hazards, influence and control uncertainties, and manage opportunities.

SELF-ASSESSMENT 1: WHERE IS YOUR INSTITUTION ON THE RISK CONTINUUM?
Where does your institution stand on the risk continuum in Diagram 2 on page 7? In general, the further up the continuum, the better for the institution. The questions in the following table might help you determine your institution's position on the risk continuum. Is your institution focused primarily on managing the hazards of crises and being in compliance with laws and regulations? If so, its concerns are likely to center on: ■ Its own crises or those of its peers ■ Compliance matters ■ Avoiding personal liability Is your institution focused on controlling uncertainties as well as on crisis management and compliance? If so, its concerns are likely to center on: ■ Understanding the full range of risks it faces ■ Understanding and evaluating strategic risks ■ Achieving best practices ■ Protecting reputation Does your institution view risk as an opportunity to enhance stakeholder value (in addition to crisis management, compliance, and controlling uncertainties)? If so, its concerns are likely to include: ■ Enhancing capital or funds allocation ■ Improved returns through value-based management Ideally, an institution should be doing all of these—managing hazards, complying with laws and regulations, controlling uncertainties, and viewing risk as an opportunity to enhance stakeholder value.

SECTION II: THE DRIVERS OF RISK

WHERE DOES RISK COME FROM? One of the first steps in any risk management assessment is to consider the drivers of risk. Broadly stated, the drivers of risk are the factors that introduce risk into an environment. Before risk management solutions can be developed, the current drivers of risk must be identified and then evaluated. Risk drivers can be categorized as operational, strategic, compliance, financial, and reputational. Each of these drivers directly affects the organization's revenues. They can be dynamically modeled to simulate the effect of each risk so that the organization develops a better understanding of its risk drivers and resulting cash flows.

For example, the British government recently announced that it plans to develop a business plan for a new international "e-university." The plan will be developed through the Higher Education Funding Council in Great Britain. The business plan might consider such factors as recruiting faculty and students internationally, accepting tuition payments in different currencies, and coping with global economic cycles. In the business plan, the council might want to model cash flows under various scenarios to better gauge the financial risks of launching an e-university.

IN TODAY'S OPERATING ENVIRONMENT, many drivers contribute to higher education's risk profile. The tables on this page and the next were developed by two groups of higher education leaders who met to discuss emerging risk management concepts. The first table (Table A below) focuses on strategic risk drivers, while the second (Table B on page 10) features operational and compliance risk drivers. Each table depicts the drivers of risk in the left-hand column, the primary stakeholders who are responsible and more directly impacted for each risk in the center column and, in the right hand column, the relative rank of each risk as high, medium, or low. The risks have been arranged by "heat" level, beginning with the "hottest" drivers of risk.

Table A: STRATEGIC DRIVERS OF RISK IN HIGHER EDUCATION

RISK DRIVER	STAKEHOLDERS	"HEAT" LEVEL
Emerging Educational Delivery Systems	Students, Faculty, Executive Management, Staff, Accrediting Agencies	H
Inability of Governance Processes to Support Strategic Objectives	Trustees, Executive Management, Faculty	H
Increasing Opportunities to Leverage Intellectual Capital	Executive Management and Faculty	H
Excess Physical Capability	Trustees, Executive Management, Donors	H
Quality of Academic Program	Students, Faculty, Executive Management	M
Increasing Customer Expectations (e.g., financial aid, student life, access, capacity)	Students, Parents	M

Table B: OPERATIONAL AND COMPLIANCE RISK DRIVERS IN HIGHER EDUCATION

RISK DRIVER	STAKEHOLDERS	"HEAT" LEVEL
New Technologies	Trustees, Executive Management, Staff (for selected issues)	H
Reimbursement and Financial Issues Facing Academic Medical Centers	Dean of Medicine, Clinical Faculty, Regulators, Hospital Boards, Trustees, Research Community	H
Increased Regulatory Scrutiny and Accountability	Trustees, Executive Management, Internal Audit, Public	H
Research and Intellectual Property (e.g., ownership of courseware)	Executive Management, Research	H
Human Resource Management (e.g., attracting, retaining, training)	Human Resource Management, Unions, Staff	H
Unionization (e.g., graduate schools and faculty)	Human Resource Management, Staff	H
Decentralized Responsibility	Staff, Faculty, Auditors	H
Security, Internet Access, Electronic Records	Students, Executive Management, Faculty, Staff	M
New Construction and Deferred Maintenance	Real Estate Office, Donors, Executive Management	M
New Business Creation (e.g., subsidiaries, international operations)	Staff, Faculty	M
Increased Competition (e.g., for faculty, students, gifts, and research)	Trustees, Executive Management, Faculty	M
Student Behavior and Community	Alumni, Parents, Students, Faculty, President	M
Contracting and Related Processes	Attorneys and Executive Management	L to M
Endowment Management	Trustees, Staff, Alumni, Other Donors	L to M

Note that the first group gave the hottest ranks to the strategic risk challenges. In a second group's view, the hottest risk drivers arose from operational challenges such as compliance issues, technology, and so forth.

The two tables indicate that many challenges confront higher education, which was a conclusion that did not come as a surprise to any of the higher education leaders assembled that day. What can be done to solve them? Are there any lessons we can learn by applying risk management models? How do we as business officers prepare our organizations to deal with the challenges?

SELF-ASSESSMENT 2: WHAT RISK DRIVERS ARE AFFECTING YOUR INSTITUTION?
Before it is ready to implement a risk management program, an institution should understand and evaluate the full range of risks it faces. Consider, for example, the risk drivers identified in Tables A and B on pages nine and ten. Are these risks affecting your institution? Most institutions are aware of the financial and compliance risks they face. Many institutions also have taken the next step, which is developing plans to address these risks. It is much harder to develop plans for strategic and reputational risks. Has your institution considered its strategic and reputational risks?

SECTION III: IMPLEMENTING A RISK MANAGEMENT PLAN

ONCE AN INSTITUTION'S LEADERS UNDERSTAND how risk is defined and identify the full range of risks they face, they should develop a risk management plan. Learning how other organizations manage risk can be helpful. Research indicates that certain organizational models are more effective than others. It also indicates that organizations with effective risk management programs evolve over time. At each stage, they become better at managing risk. Most of the research PricewaterhouseCoopers has conducted involves the for-profit corporate world, in which risk management techniques have undergone a significant evolution over the past ten years. The more effective models exist in those organizations where risk management has evolved from a backroom function to a CEO and boardroom function.

Today's organizations approach risk management in ways that can be broadly categorized into five levels:

- Level I organizations see little value in proactive risk management. Other than insurance risk management, there are few formal risk management programs in place in Level I organizations. They tend to implement risk control mechanisms only when unmanaged risk turns into a problem or crisis.
- In Level II organizations, there is general awareness about risk management and some conceptual appreciation for its value in assuring that not all uncertainties become problems. Although most business units do something to monitor their risks, there are no centralized processes, no systematic monitoring, and no defined accountability for risk management.
- Level III organizations are aware of risk management and they have set up some mechanisms to monitor risks. For example, Level III organizations may have an internal audit function. Internal audit may design audits with a risk focus. It may also promote self-assessments of risk, often using a checklist.
- In Level IV, a broader risk management position is created to review "hot" spots, assist in risk assessment within the business units, and keep score. Organizations that reach this level consider both qualitative and quantitative factors. While checklists are used, the customization of these tools and the strength of the entire risk management program rely heavily on the knowledge, judgment, and effective span of influence of the chief risk officer (i.e., the corporate officer who is responsible for risk management).

- By Level V, the highest level, risk management has fully evolved from a back office function to a CEO-level concern. In a Level V organization, the CEO believes that risk management should be imbedded in every part of the organization. He or she sponsors the risk management program. Working with the senior leadership team, a risk manager designs processes, forms, and training. With the ongoing assistance of the risk manager, each business unit designs its own risk mitigation plan. The business units track their progress against action plans. Training programs are in place. The goal is a balanced scorecard performance appraisal with continuous improvement. Tools may include information on databases, surveys or questionnaires, point scoring or weighting, automated forms and processes, and the monitoring of action plans. Internal audit monitors the risk management program to assure that the process is in place and working effectively.

THE FIVE ORGANIZATIONAL MODELS IN ACTION

TO SEE HOW EACH OF THE ABOVE models would actually work, let us consider how a particular issue might be viewed. Using employee turnover as the issue, let's examine how the organization at each level might view risk:

- In Level I and Level II organizations, the questions being asked and the issues on which attention is focused would likely be:
  - *If key staff members leave, how exposed will the organization be?*
  - *What processes do we have in place to mitigate this risk and to fill positions when key staff members leave?*

- In Level III organizations, the issues would more likely be:
  - *What benefits exist to maintain employee satisfaction?*
  - *How are we sure that we are competitive in the marketplace?*
  - *What steps must we take to assess and monitor employee satisfaction?*

- In Level IV and V organizations, there is an appreciation for turning risk into opportunity by asking and solving such questions as:
  - *What can we do to create a program that will attract and retain the best and the brightest?*
  - *Could we adopt employee ideas, provide scholarships, and actively advertise that we are the best place to work?*

SELF-ASSESSMENT 3:
WHICH LEVEL HAS YOUR INSTITUTION ATTAINED?

Consider the italicized questions on page 14 using the hypothetical issue of employee turnover. How would your institution view this issue? How would you categorize your institution? As a Level I? Level II? Level III, or IV, or V? To help your institution evolve to increasingly higher levels, consider the eight key elements of an effective risk management organization that begin below.

EIGHT KEY ELEMENTS

AS NOTED EARLIER, RISK MANAGEMENT organizations evolve over time, gradually moving from Level I to Level V—assuming all goes well at each level. It becomes increasingly important for the organization to have the following eight key elements in place. In fact, unless it has these eight key elements in place, it is unlikely that the organization will become truly effective at managing risk.

1) **ACCEPTANCE OF A RISK MANAGEMENT FRAMEWORK AS THE FOCAL POINT AND THE COMMON LANGUAGE**: Everyone in the organization (including the board) needs to be educated about the risk management initiative; they must understand the process. Furthermore, they need to become familiar with the new language of risk.

2) **SENIOR MANAGEMENT COMMITMENT**: Top management must embrace the need for an evolution to an integrated risk management framework. Management must set the proper tone at the top for risk management to work.

3) **RISK MANAGEMENT OWNER**: A chief risk officer, or another member of management, must be designated for an appropriate period of time to implement the program. The chief risk officer would work with each business unit, leveraging its knowledge and that of its operating line individuals.

4) **COMMUNICATION**: The compelling need for an evolution to an integrated risk management framework must be communicated throughout the organization. The communication needs are much broader than the traditional definition of risk. Earlier, we defined risk as any issue that could impact an organization's ability to achieve its objectives. This definition assumes that the organization's objectives have been clearly defined and that they have been effectively and widely communicated.

5) **TRAINING**: Staff must be mobilized with effective training.

6) **REINFORCEMENT THROUGH HUMAN RESOURCE MECHANISMS**: Human resource mechanisms must be developed that establish accountability and reward effective behavior. The balanced scorecard is a method of compensating people, a way to reward those who display the right behavior. (Some employers are compensating staff for good risk management skills. They also are looking for these skills when recruiting.)

7) **PROCESS:** There must be a risk management process in place. The drivers of risk may change, but the process need not change. The risk management process must identify opportunities for sustainable competitive advantage. It also must permit timely corrective action or action to mitigate the risk.

8) **MONITORING BY INTERNAL AUDIT**: Internal audit should play a key role. The internal audit department should be viewed and empowered as an agent to assess and improve risk management practices.

SECTION IV. ADVANCING THE RISK MANAGEMENT AGENDA FURTHER

IN OUR MEETING WITH HIGHER EDUCATION leaders we discussed the key question: How can higher education institutions, given their culture and traditions, become more proactive in discussing and initiating change designed to enhance their risk management and control structure?

The table below summarizes the challenges, along with some potential solutions, higher education leaders saw in engaging the campus community to improve business risk management processes and structure. Following Table C, we consider several ideas—involving trustees and audit committees, for example, and managing the opportunities to advance the risk management agenda—in greater depth. We also present several case studies.

Table C: RISK MANAGEMENT CHALLENGES AND SOLUTIONS

CHALLENGE	SOLUTION
Marketing risk - Risk has a negative connotation. It is not viewed as being tied to strategic objectives; it is not a core interest.	Find new ways to talk about risk. Convene groups of institutional experts to discuss strategic and compliance risks. Define the reputational and financial impacts. Clearly identify risks associated with major initiatives already underway where the institution cannot “afford to fail.”
Measuring risk - It is difficult to quantify risk on anything but a relative scale.	Develop a model with appropriate qualitative and quantitative outcomes and indicators (e.g., benchmarks).
Identifying “champions” - Finding champions with the authority and credibility to educate management and faculty is key.	Appeal to trustees’ experience and find a champion on the board. Also, find sponsors at the faculty/department level.
Culture - The higher education culture is decentralized, slow to change, reactive, and analytical.	Reward cooperation. Tie risk to strategic objectives in the planning process. Offer solutions, tools, training, and resources. Build action into consensus.
Defining accountability - Finding ways to motivate people to take more responsibility for risk is key. Risk is too often viewed as someone else’s problem.	Create incentives for managing risk. Manage the opportunities and take advantage of lessons learned from crises. The objective is to demonstrate that effective risk management can minimize future crises. Designate a “risk management” change agent.

INVOLVE TRUSTEES

BOARDS OF TRUSTEES ALREADY PLAY a significant role in the development of an institution's risk management and control structure. They can very effectively promote and support the right "conscience" or "tone from the top" that an effective enterprisewide risk management program needs.

The Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (the Committee) was created in October 1998 by the New York Stock Exchange (NYSE) and National Association of Securities Dealers (NASD). The Committee was created in response to concerns expressed by the Securities and Exchange Commission (SEC) on how best to improve board oversight of the financial reporting process of public companies. The Committee issued its recommendations in early 1999. By December 1999, self-regulating bodies (the NYSE, NASD, American Stock Exchange) as well as the SEC and the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board had issued rules implementing the Blue Ribbon Committee's recommendations.

The rules cover corporate governance, including audit committee independence, qualifications, and composition. They say that audit committees should carry out appropriate activities to monitor organizationwide risk assessment processes in publicly held companies. While the rules apply only to publicly held companies, higher education institutions should seriously consider adopting them as best practices. One reason is that higher education audit committees include executives who are responsible for complying with the Blue Ribbon Committee's recommendations in the private sector. They will be inclined to expect similar standards on campus.

The second reason is that it is better to be proactive. We suggest that audit committees should assume a broader role sooner rather than later to monitor risk. Audit committees should define the risk culture of an educational institution, support organizational goals to assess and manage risk, and ensure that internal audit monitors processes to mitigate risk.

SELF-ASSESSMENT 4:
IS YOUR AUDIT COMMITTEE ADVANCING THE RISK MANAGEMENT AGENDA?

To ensure that they are playing an appropriate role in supporting enterprisewide risk management and control, as well as fulfilling their own fiduciary responsibilities, audit committees should ask the following questions:

- Does my institution have an effective process for identifying risk? Does the process include an assessment of the probability of risk and its potential impact on the institution? Who owns this process at my institution?
- Is this committee comfortable that enterprisewide risk is assessed, managed, and monitored? What type of report do we review to support this process?
- Has my institution assessed the risks for its most critical strategic objectives? Are management controls in place to mitigate these risks?
- If management controls are not in place, what type of assurance does this committee have that actions will be taken to put such controls in place? What type of follow-up reporting do we review to ensure that corrective action has taken place?
- Do my institution's business processes support organized decisions and actions? Does my institution conduct training for risk and control?
- Is my institution's internal audit plan designed to effectively monitor management's processes to manage risk, or is it relied upon to identify risk?

MANAGE THE OPPORTUNITIES

THE HIGHER EDUCATION LEADERS ASSEMBLED by NACUBO and PricewaterhouseCoopers agreed that the current environment with its competitive, compliance, technological, and administrative challenges presents an opportune time to discuss business risk concepts more broadly within the campus community. Almost every institution is engaged in some kind of initiative that introduces more risk. Consider, for example, the scenarios on the next page.

- Institutions should be alert to the windows of opportunity that might already exist to further the risk management agenda. For example, it might be appropriate to initiate a risk management discussion around an ERP systems implementation. Despite the inherent risks of such an initiative, the upside potential for achieving better decision-making capabilities is substantial. Deciding how best to proactively manage systems risk is an ideal platform from which to build a broader risk management discussion.

- If an institution were considering implementing an e-business initiative, it would be a wonderful opportunity to engage in a discussion of enterprisewide risk management. E-business initiatives present broad elements of strategic (e.g., distance learning, intellectual property transfer), compliance (e.g., tax and legal), and operational (e.g., process control, security, and performance) risk. The upside potential for e-business solutions continues to be substantial.

- News stories from neighboring institutions, or informal internal surveys, can be used to galvanize action to proactively identify and manage risk on an institution's campus. Perhaps, for example, the federal government has issued a new regulation about hazardous waste. An administrator might want to make some calls to find out how peer institutions plan to comply with it. Then the administrator might begin internal discussions about appropriate solutions for his/her own campus.

- If business processes are changed, perhaps to more effectively capture cost savings from new systems, controls to mitigate risk (e.g., financial, compliance, operational) should be imbedded into the enhanced processes. Again, the goal is to be proactive; take advantage of change to raise awareness about risk and enhance its management.

- External and internal auditors can help initiate the discussion. Internal auditors have already served as catalysts to raise the awareness level of risk. They are thinking about risk in new ways and expanding their role to monitor it. External auditors can assist by making sure that the discussion includes a full range of risks from operational to compliance to strategic. Risk management impacts not just the numbers but also brand, competitiveness, and strategy.

CASE STUDIES

MOST COLLEGES AND UNIVERSITIES TODAY focus primarily on financial and compliance risk and on building effective compliance programs. A few are trying to take the risk management agenda forward to the next level.

Some institutions are using compliance initiatives to advance risk management. Two recent articles in the NACUBO *Business Officer* discussed how to establish a compliance program. The first article, "The Compliance Umbrella,"[7] suggests that an ethics and compliance program for higher education should have the following six components:

1) A compliance officer

2) Written codes of ethics and of conduct

3) Employee training and communications

4) An independent reporting mechanism, such as a hotline or a helpline, as well as communications

5) Monitoring and risk assessment

6) Corrective action plans

The second article, "A Model Operating Process,"[8] suggests that once the infrastructure has been established the operating process should begin, including as the first order of business, a risk assessment. Then for the problem areas identified in the broad-based risk assessment, the university should establish the six components of an effective compliance program that are noted above, including training, communications, monitoring, and corrective action.

ONE ONGOING INITIATIVE THAT COULD be considered an example of enterprisewide risk management is at the University of Pennsylvania. The long history of crime in some neighborhoods adjacent to its campus was identified as a risk, which must be mitigated if Penn was to remain among the elite universities in the nation. In 1995, a bold five-year program was put in place by the university's new leadership. The goals were:

- Enhanced public education in University City, a 250-block area around Penn
- Cleaner and safer neighborhoods
- Enhanced commercial amenities to improve convenience and quality of life
- Using the university's buying power and intellectual assets to facilitate job creation in University City
- Aggressive promotion of Penn's neighborhoods as places for new faculty and staff to live

7 Barbara E. Walsh, James A. Moran, and Gerald J. McDougall, "The Compliance Umbrella," NACUBO *Business Officer*, January 2000.

8 Barbara E. Walsh, James A. Moran, and Gerald J. McDougall, "A Model Operating Process," NACUBO *Business Officer*, March 2000.

Under the leadership of its president and executive vice president (EVP), the University of Pennsylvania is driving the program forward. The university is devoting significant resources and time to the local community to promote revitalization. For example, Penn has encouraged home ownership by offering $15,000 toward a mortgage for any university employee who will purchase a home in designated neighborhoods. The EVP chairs the University City District, the area where Penn, neighborhood businesses, hospitals, Drexel University, and the University of the Sciences in Philadelphia have agreed to target better marketing, street cleaning, safety patrols, and bus service. The University of Pennsylvania pays $2.25 million of the District's $3.9 million annual budget.[9]

ALIGNING WITH THE MARKETPLACE

PRICEWATERHOUSECOOPERS' EXPERIENCE OVER the past several years reinforces the higher education marketplace's readiness to view risk concepts in a new way and verifies that a broader risk consciousness is growing. For example, utilizing higher education risk tools and methodologies, PricewaterhouseCoopers has:

- Utilized a Web-based survey to assess the risk culture and highlight hot risk areas needing attention on several campuses
- Reviewed compliance programs of academic medical centers
- Assisted in developing universitywide risk management and compliance structures
- Verified the data publicized on several universities' web sites for integrity and accuracy
- Developed risk assessments as part of our internal audit assistance at several universities

9 Van Der Werf, Martin, "A Vice President from the Business World Brings a New Bottom Line to Penn," *The Chronicle of Higher Education*, September 3, 1999.

SUMMARY

HOW LONG WILL IT TAKE FOR EFFECTIVE RISK management programs to become a regular part of higher education's internal control arsenal? Some have said, "Defining risk is not so much the problem." It is once you begin to realize and discuss what it is going to take to solve it, that there is a tendency to be frozen in place—transfixed by the enormity of the task. Still others maintain that higher education has already come a long way, noting: "A few years ago, we were building controls on a process. Now we are building risk management into a process." We are discussing these topics openly in an informed way."

In terms of enterprisewide risk management, where is your institution today? Where is it heading? How can you help to advance the pace of change?

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About PricewaterhouseCoopers

PricewaterhouseCoopers (www.pwcglobal.com) is the world's largest professional services organization. Drawing on the knowledge and skills of more than 150,000 people in 150 countries, we help our clients solve complex business problems and measurably enhance their ability to build value, manage risk and improve performance in an Internet-enabled world.

PricewaterhouseCoopers refers to the member firms of the worldwide PricewaterhouseCoopers organization.

About NACUBO

NACUBO (www.nacubo.org) is a nonprofit professional organization representing chief administrative and financial officers at more than 2,100 colleges and universities across the country. Over two-thirds of all institutions of higher learning in the United States are members of NACUBO. NACUBO's mission is to promote sound management and financial practices at colleges and universities.

NACUBO's members are nonprofit and for-profit organizations located in the United States and abroad . . . all are committed to excellence in higher education finance and administration.

NACUBO, founded in 1962, is governed by a board of directors composed of leaders in higher education financial management from around the country.

NACUBO has a professional staff of approximately 55 persons, skilled in finance, management, and federal issues applicable to the field of higher education.

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