MANAGING INSTITUTIONAL RISKS – A FRAMEWORK

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DEDICATION

This dissertation is dedicated to my wife, Nancy, and daughter, Kathryn. Without their love, encouragement and support, this journey to advance my formal education would have been extremely more difficult. As a family, we have and continue to be committed in our personal and professional lives to continuous life long learning. May our commitments continue to enrich our lives, provide memorable life experiences and position us, in some small way, to make a difference in the lives of those we meet along our journeys.
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Lastly, there are several of my higher education industry mentors, peers and colleagues who opened doors for me to gather research data and provided encouragement to me along the way. To name them individually would risk breaching the confidence of my interviews, so to each of you I extend my gratitude and appreciation for your contributions.
The focus of this study is on an institutional-wide risk management framework for colleges and universities. The changing business environment is challenging leaders at major research universities specifically, but most colleges and universities generally, to develop strategies to safeguard their core mission of teaching, research and service. Strategies to address change will be accompanied by business risks: strategic, financial, operational, compliance and reputational. The for-profit corporate sector has evolved a common language and framework for enterprise-wide risk management. The University of Pennsylvania has embraced a vision for institutional-wide risk management and is assessing implementation options. Can models from the for-profit sector be adopted into the core leadership and management processes at colleges and universities? In what context can higher education support the selection of someone to champion the discussion, evolve the model and develop a common language for continuous consideration of institutional-wide risks in higher education institutions? I selected two for-profit sector organizations outside higher education, one not-for-profit health care organization, and six higher education institutions, for study using purposeful sampling, interviewing chief risk officers and other key leaders. I collected data through the review of relevant documents.
My research study indicates that institutional-wide risk management is an important and timely topic among higher education leaders. The enterprise-wide risk management models evolving in the for-profit sector have provided guidance for early adopters in higher education. Early adopters are defining risk as any issue that impacts an organization’s ability to meet its objectives and that risks fall typically into five categories: strategic, financial, operational, compliance and reputational. Key success factors necessary to effectively adopt and implement an institutional-wide risk management framework include, but are not limited to: trustee and presidential support; a knowledgeable person/s from within the industry, preferably the institution, to champion the initiative; and connectedness of the initiative to the overall institutional mission.

Currently institutional-wide risk management does not attract a large higher education audience. Until three or four of the top tier university presidents recognize the value of institutional-wide risk management and adopt a framework as a model for creating or sustaining success, adoption will be incremental.
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CHAPTER 1: INTRODUCTION AND SIGNIFICANCE

Introduction

As higher education leaders provide business strategies for the 21st century, it is important to recognize and continuously evaluate the powerful market forces changing not only our society but also the economy and related business environment that accompany the complex institutions of colleges and universities. Higher education is no longer insulated from the realities of constant change. The industry must transform itself to be more responsive to changing business environments. How can higher education leaders develop the strategic tools necessary to transform the industry in the face of societal, political and economic challenges?

As leaders in the industry, major research universities specifically, and most colleges and universities generally, are being challenged to safeguard their mission and underlying core competencies of teaching, research and service. Traditional management structures and educational programs are no longer protected from market forces. Higher education managers and leaders are being challenged to develop, maintain and apply skills heretofore thought appropriate only in the “for-profit sector” of the economy. The following drivers are increasing pressure to transform the industry:

- **Fierce competition for faculty, students, staff and financial resources:**
  
  Competition between and among the market segments of higher education is keen. For example, the “medallion” (Zemsky, R., Shaman, S., & Shapiro D.B., 2001) market segment institutions are constantly attempting to attract faculty at their peer institutions to join existing departments or create new programs of study in their field of expertise. The “name brand” and “good
buy” (Zemsky, et al., 2001) segments are continuously attempting to pick off just one world renowned scholar from the medallion market to add prominence and prestige to their campus. The loss of one to the other creates significant risk to sustaining prestige, quality and competitive advantage needed to attract students and research funding. Competition for staff is oftentimes as keen among institutions, and colleges and universities must additionally compete with local labor markets outside the industry. Because of its entrepreneurial culture and advancement in national rankings over the past five to ten years, the University of Pennsylvania has become a shopping mall for senior management executive recruiters.

- **Pressure for increased productivity, responsiveness and accountability, while reducing cost:** Rising tuitions and fees have resulted in key stakeholder pressure for performance-based measures, improved customer service, quality initiatives and administrative restructuring. The industry has not been effective in telling its story and gaining understanding of the value proposition that higher education provides to society and the economy.

- **Increased external scrutiny from government, philanthropists, the public and governing boards:** Increased expectations and oversight accompany increased funding from public appropriations or donors; in some instances very detailed strings are attached. This results from the competition chasing the same dollars. For example, in the public sector, healthcare, social welfare, transportation and prison programs are lobbying for the same dollars. In the private sector, donors (individuals, trusts, foundations and charities) are
lobbied by competing private colleges and universities, as well as other not-for-profit organizations. The competition for public and private research funding is intense, and recipients are being subjected to increasingly complex and inflexible programmatic and financial reporting requirements.

- **Rapidly increasing entrepreneurial ventures:** To safeguard the academic core, colleges and universities are expanding the perimeter around the core to provide new revenue streams and innovative settings for faculty and students to market test new technological and research discoveries. These new programs for entrepreneurial joint ventures and partnerships among faculty, students, the college and/or university and venture capitalists are creating stresses and strains on traditional administrative and financial infrastructures.

- **Powerful new technologies:** Technological innovation continues to transform education delivery systems, the conduct of research and the capabilities to manage the enterprise more efficiently. It also requires significant investment of both financial and human capital resources. Innovation is changing institutional cultures, uprooting long standing traditional business practices and processes, and requiring learning and developing new skills.

These drivers are not unlike the challenges faced in the for-profit corporate sector. However, unlike higher education, the business world is better positioned to respond quickly to the changing marketplace.

As higher education leaders map new strategies to address the drivers that are creating pressures to transform the industry, business risks will expand. In response to
changing business environments, some segments of the for-profit corporate sector evolved a common language defining business risks within the following framework:

- **Strategic Risks – goals of the organization:** In the business world, strategic plans provide the road map for new product development, competitive positioning and increased market share. Accompanying each strategic initiative are risks that present opportunity, uncertainty and hazard. These risks are taken into consideration when determining “go” or “no go” strategies. Colleges and universities are engaged in developing extensive strategic plans to guide their achievement of strategic goals. What is not evident is whether consideration is given to the risks accompanying these strategies.

- **Operational Risks – processes that achieve goals:** Day-to-day operations within businesses determine the success or failure of achieving incremental progress towards defined goals. Accompanying each operation are risks that could deter progress towards goals. The ability to anticipate and manage risks is critical to maintaining on-going operations. Colleges and universities likewise are dependent upon day-to-day operations for their success and are subject to operational risks.

- **Financial Risks – safeguarding assets:** The potential loss of physical assets or financial resources represents areas traditionally subjected to more focused risk management. Businesses generally acquire insurance to protect against potential or unanticipated asset and/or financial losses. Colleges and
universities like businesses pay particular attention to financial risk management.

- **Compliance Risks – laws and regulations:** Like colleges and universities, businesses in the for-profit sector like colleges and universities are subjected to many external rules and regulations. Non-compliance can be costly. Some of the most significant penalties have come from ineffective management of compliance risks. An increasing focus on managing compliance risks is evolving given significant events that have proven costly and embarrassing to both for profit sector businesses and colleges and universities.

- **Reputational Risks – public image:** For businesses and colleges and universities, their reputations may be their most important asset and the one least protected. An organization’s image and reputation rest in the hands of the people who comprise the organization and are guarded only by the decisions made and actions they take each day to ensure the organization’s success. Many organizations’ images have been damaged and reputations tarnished by failure to effectively manage reputational risks.

How can higher education adopt a common language and framework to manage business risks? Who will champion the discussion, evolve the model and develop a common language for continuous consideration of institutional risks? What metrics will be used to identify, measure and gauge risk tolerance? Where will accountability and responsibility for institutional risk management reside? What will be the benefits? How can risks provide opportunity versus creating uncertainty and hazards?
**Significance**

The notion of “enterprise-wide” risk management evolved in the “for-profit” sector. Models reviewed to date are in the infant stages. Some models are being driven by board mandates in response to adverse events that negatively impacted the reputation of major companies. Others are evolving through the forward thinking of industry leaders and their board of directors.

The University of Pennsylvania has embraced a vision for institutional-wide risk management and is assessing implementation options. Developing mechanisms for managing risk was a key component of the 1996 five-year strategic plan, *Agenda for Excellence*. The University’s Trustees, President, Provost and Executive Vice President continue to focus current strategic planning on Penn’s readiness in a changing business environment. As part of the planning process, I have been charged to develop and implement a comprehensive institutional risk management program. The objective of my dissertation will be to investigate for-profit and not-for-profit institutions, explore what others have written inside and outside of the higher education industry, and use the existing framework that has guided preliminary initiatives at Penn and Fortune 100 companies to determine the feasibility and utility of an institutional-wide risk management program, and the designation of a Chief Risk Officer to champion the effort at the executive leadership level.

In my discussions with industry leaders (both campus based and within professional associations), they acknowledge the importance and need for a holistic approach to considering and managing institutional risks. They agree the launching point needs to be college and university trustees, presidents and executive management. This
research provides a framework for considering risks as a critical component of college and university strategic planning initiatives and operations. What is uncertain is how readily colleges and universities will adopt a framework for institutional risk management.
CHAPTER 2: LITERATURE REVIEW

The Changing Business Environment

Transforming the manner by which colleges and universities manage resources in a changing business environment is a difficult job at best. Higher education leaders do not typically recognize the changes external market forces are having on the industry. Higher education leaders cannot successfully map new strategies to deal with constant change, unless they are cognizant of and focused on the business risks that accompany these strategies.

In 1996, the Association of Governing Boards (AGB) raised questions and concerns regarding the industry’s preparedness to meet the challenges of the future. The AGB’s focus began at the very top by questioning the governance structure. “Is the present system of governing American colleges and universities up to the demands of today and the foreseeable future? If not, what needs to change? To answer the question we needed to reconsider the conventional wisdom about academic governance, respectful of the past, but fully aware that the past cannot secure the future” (Association of Governing Boards, 1996).

The AGB recognized that “these institutions face new and growing challenges in a difficult and threatening environment---and their traditions of management and governance stand in the way of timely and effective responses” (Association of Governing Boards, 1996). The AGB further noted “higher education today confronts
challenges that are more numerous, more serious and more rapidly developing than at any
time in recent memory. Every day, campuses struggle with the effects of diminishing
resources, reduced research support, an accelerating telecommunications revolution, the
ongoing challenges of access and diversity, and conflicting public expectations”
(Association of Governing Boards, 1996). Managing the reality of these growing and
new challenges will require focused strategies and the ability to initiate change rapidly.
In addressing change and non-consequence environments, Judith M. Bardwick writes,
“everyone, at every level, will have to learn to manage continuously increasing amounts
of competition, change and risk. While that is tough for everyone, it will be particularly
difficult for those people who enjoyed the complacent, risk-averse, and safe conditions of
no-consequence cultures” (Bardwick, 1998).

In a more recent assessment of the challenges accompanying the turn of the
century, Molly Corbett Broad, President of the University of North Carolina, offers that,
“the turn of millennium…. Is arguably the most fascinating and challenging time in the
history of American higher education. Powerful forces of change are impacting every
sector of our society and our economy.” She believes that “higher education will not be
immune to these megatrends, nor to their transformational effects on the college and
university enterprise…. these major forces of change include: population demographics;
knowledge economy; information technology; knowledge explosion; and globalization”
(National Association of College and University Business Officers, 2000). It is
extremely important for change management skills to be resident in leadership teams at
colleges and universities today. Higher education leaders and managers are lacking
proficiency in skills that historically have been viewed essential in the “for-profit
corporate sector” of the economy to effectively deal with the changing business environment. James E. Morley, President of the National Association of College and University Business Officers, and Benjamin F. Quillian of California State University, acknowledge, “The environment in which colleges and universities operate has changed dramatically within the past ten years. Greater management and leadership skills than ever before are now required of higher education administrators” (National Association of College and University Business Officers, 2000).

The responsibility for leadership begins with the college or university president, who creates a vision for the institution and shares that vision with the senior administrative leadership team. In today’s business environment, can college and university presidents focus on safeguarding the mission and core competencies of teaching, research and service, while at the same time providing vision and leadership for the rapidly expanding perimeter of business activities (entrepreneurial ventures, technology transfer, privatization of services) around the core? The role of the college and university president may evolve into that of a true for-profit corporate sector Chief Executive Officer (CEO).

In the case of the medallion institutions’ market sector, the role of president has in fact become as complex and demanding at that of CEOs in the for-profit corporate sector. As CEO, the focus of college and university presidents is on a broad spectrum of activities that extend beyond the academic core. Will presidents give consideration to managing institutional risks that accompany their vision for the institution?

In his assessment of the paradigm shift needed in risk management, James W. Deloach writes, “CEOs face many challenges. They must focus and motivate their
organizations to capitalize on emerging opportunities. They must continue to invest precious resources in the pursuit of promising – though uncertain – business activities. They must manage the business in the face of constantly changing circumstances” (Deloach, 2000). It is a definite expectation of trustee boards that college and university presidents establish the vision, values, operating principles and policies that guide their cabinets and set the tone for the pace at which goals and objectives underlying the institutional vision are developed and implemented. On the president’s team are vice presidents who direct senior administrators managing colleges, departments, student life activities and support and auxiliary services. They have the responsibility for establishing and evaluating business objectives, policies and risks. Deans and department heads are responsible for daily operations including oversight, monitoring and day-to-day management of their respective areas. Responsibilities for the institution’s success cascade down and across the institution to financial and budget officers and to virtually every employee in the institution.

Colleges and universities will need to understand the risks that accompany changing business dynamics. Institutional leaders will need to establish a “risk conscious” tone at the top for their organizations. “Organizations need a sense of urgency to sustain performance, to justify the end of no-consequence cultures, and to achieve results-focused organizations. The claims of urgency must reflect what is real. A sense of urgency is most easily created when reality is endlessly competitive, demanding, and difficult. Urgency is the natural and organic motivator for innovation and it comes from being in touch with market conditions and outcomes, with competitors as well as customers” (Bardwick, 1998). To guide colleges and universities through this
complex set of new realities it is critical to understand the institutional risks that
accompany a changing business environment. Giving consideration to institutional risks
that accompany strategies, and that present opportunity, uncertainty and hazards, will
position the institutional leadership team to be better prepared to meet challenges.

**Risk Management Evolution and The New Language of Risk**

“Risk Management evolved from insurance buying when methods other than
insurance began to be used to treat risk exposures. Originally, the scope of risk
management was narrowly defined to include only accidents that resulted in a loss. In the
1980’s, as sophisticated risk financing became an important alternative to insurance, risk
management expanded to include other risk transfer and control strategies. Now the
evolution continues as the focus of traditional risk management expands into strategic
risk management, an even more comprehensive approach that does include investment,
business, and political risks” (National Association of College and University Business
Officers, 2000). The arena of risk management is being transformed and linked to
organizational vision, mission and strategies.

A series of business failures and resulting studies of internal control systems have
been the impetus for change. In the late 1980’s, an era of businesses failures occurred as
a result of high risk financing strategies. External publics and key stakeholders lost
hundreds of millions of dollars, the overall economy was negatively impacted and public
trust in Wall Street and the investment community was lost. These events and outcomes
resulted in authoritative standard-setting bodies for the financial services and accounting
and auditing industries to convene and assess the nature of these business failures. The
result was the commissioning of the Committee of Sponsoring Organizations (COSO) of
the Treadway Commission (National Commission on Fraudulent Financial Reporting) to conduct a study of the business failures and to issue guidance on how to prevent reoccurrences. The American Institute of Certified Public Accountants, American Accounting Association, Financial Executives Institute, Institute of Internal Auditors, and Institute of Management Accountants sponsored the commission. The outcome of COSO’s review of internal control systems was the recognition and communication of the need to shift the focus on managing organizations from strictly a financial control focus to a focus on managing “business risks”. This represented a major paradigm shift in and for corporate boards, management and external third parties responsible for auditing and regulatory oversight. COSO believed that by focusing on the broader spectrum of business risks versus solely on traditional financial risks, significant business failures might be minimized in the future.

The COSO report provided a common language regarding controls and created an integrated control framework for managing business risks. The framework consists of five interrelated components: control environment, risk assessment, control activities, information and communication and monitoring. The control environment component is considered the foundation. It focuses on people, the ethical and moral values (tone at the top) established by an organization’s leadership team and competence. It emphasizes that people are the organization and key determinants of its success or failure. The risk assessment component ensures mechanisms exist throughout the organization to identify, manage and mitigate unwarranted risks. Therefore goal alignment is critical throughout the organization and integrated into all significant activities. The control activities component provides that policies and procedures should be established and adhered to in
order to ensure all actions support the achievement of defined goals. The information and communication component provides that information and communication should occur up, down and across the organization. It requires that information be timely and complete in order for actions that support achieving stated goals to be completed. The monitoring component provides that the entire process must be monitored in order to recognize and make necessary adjustments during the course of operations. It provides the basis for reacting timely to changing business environments.

Since the framework’s issuance, “risk management concepts and techniques have evolved at a quickening pace in the marketplace. 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” (National Association of College and University Business Officers, & PricewaterhouseCoopers, 2001). Many interpretations of the concept of “business risk” have evolved. “The word ‘risk’² 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” (National Association of College and University Business Officers, et al., 2001).

In the corporate financial services sector, managing certain risks has been commonplace although “in silos” according to James Lam (1999). Various models of institutional wide risk management evolved as entities looked more broadly at risks. In the financial services sector, Lam has characterized seven components (The Magnificent Seven): Corporate Governance; Line Management; Portfolio Management; Risk

² The common use of the word “risk” allows the concept to be applied to a variety of issues, and thus emphasizes its utility and importance.
Transfer; Risk Analytics; Data and Technology Resources; and Stakeholders Management. Lam states “managing risks by silos simply doesn’t work, because risks are highly interdependent and cannot be segmented and managed solely by independent units” (Lam, 1999).

In 1999, the National Association of College and University Business Officers and PricewaterhouseCoopers, a global accounting, auditing and consulting services firm, sponsored a forum for higher education leaders with responsibility for managing risks at their respective institutions. The participants were convened to discuss the topic of managing risk in higher education and the concept of an institutional wide risk management model for colleges and universities. The group reached general consensus that “risk is any issue that impacts an organization’s ability to meet its objectives and that risks fall into typically five categories: strategic risk; financial risk; operational risk; compliance risk; and reputational risk” (National Association of College and University Business Officers, et al., 2001).

Strategic risks relate to the goals of the organization. In developing strategic plans, colleges and universities should consider the risks associated with each strategy. For example, if a college’s strategy is to recruit additional star faculty in targeted academic disciplines, what are the resource requirements and sources of funding? Does the college understand the competitive market and related costs for recruiting star faculty? Operational risks relate to the processes within the organization that operationalize goals. If new technologies are implemented to manage the institution more effectively, what mechanisms are in place to ensure the new systems are designed to leverage all capabilities and not implemented to mirror existing systems? Have
have been made to effectively implement the system and adequately train staff?

Financial risks relate to the institution’s assets and safeguards. If a conservative institution changes its endowment investment strategy to be more aggressive, what are the implications for sustaining intergenerational equity? Compliance risks relate to the laws and regulations that govern higher education’s business and operations. Are risk awareness training programs provided for researchers and administrative staff at research institutions? What monitoring mechanisms exist to ensure compliance is a strategy and philosophy embraced and practiced within the institution? Lastly, reputational risks relate to an institution’s public image. Are programs in place to provide administrators, faculty, staff and students information to sensitize them to reputational risks?

All components of business risks are interrelated. For example, misconduct in research not only presents compliance risks but reputational and financial risks as well.

Where Do Risks Come From

“Every college and university faces a variety of risks from external and internal sources that must be assessed” (Cutler, 1993). One approach to developing a risk assessment of a college or university’s organizational structure would be to pattern the model consistent with how the institution is managed. Each component could be assessed around agreed upon criteria. The criteria could include factors such as trustee and management concerns, changes in management, changes in technology and related business processes, new investments in academic and student programs, pressure to meet business objectives, and/or heavy regulatory environment. Once the criteria are identified then a rating of each risk criteria could be conducted with an overall risk rating
or grading for the area. Using risk ratings of high, moderate or low risk, resources could be allocated accordingly to manage, mitigate or eliminate the identified risks.

**Enterprise-wide Risk Management Practices in the For-Profit Corporate Sector**

Managing risk has become a key component of business strategy in the for-profit corporate sector where change is constant. As Christy Chapman observes, “Good business is all about risk: business growth cannot occur without introducing new risks, business objectives cannot be achieved without placing assets at risk; and business rivalries cannot be won without “out-risk-taking” the competition” (Chapman, 2001). While commitment to risk management is strong, actual execution continues to evolve and remains weak. In response to the rapidly changing business environment and the evolution of the “new economy”, businesses have engaged knowledge experts to assist them in structuring risk management models that are aligned with strategy. What risk management model seems to have the greatest opportunity in this sector to effectively and holistically manage risk taking? According to Chapman’s assessment, “enterprise risk management (ERM) has recently emerged as one such method for managing risks more strategically. By holistically looking at all risks the organization faces and considering how they affect the overall accomplishment of goals, ERM helps organizations better handle their risks to achieve the greatest gains at the lowest cost” (Chapman, 2001). Chapman’s position is based on discussions with representatives from the Big Five accounting firms who are the strongest advocates of ERM and have nurtured ERM to life in many of their client companies. The ERM gurus have developed different frameworks for assisting businesses in the holistic management of risks. These frameworks focus on the organization’s strategy and assist with the assessment of risks.
and the likelihood of occurrence and significance of impact. The most effective models begin with establishing an oversight structure, creating a common language about risk management, identifying a risk champion to lead the implementation and engaging the entire organization in assessing risks that accompany business strategies planned or in progress.

According to Bodine, risk taking is an inherent component of doing business in this sector. Success is determined based on the effectiveness of internal structures for monitoring and overseeing the attainment of business objectives. “Successful businesses take calculated risks to achieve objectives. Globalization, deregulation, web-based services, complicated financial instruments and contracts, emerging markets—all contain tremendous potential advantages for companies and carry the danger of huge mistakes or unexpected developments. Businesses must measure these risks, try to minimize them and—if possible—use them to their advantage” (Bodine, et al., 2001).

James W. Deloach has conducted one of the most comprehensive assessments of current risk management structures and a vision for “the future of risk” (Deloach, 2000). He calls for a dramatic evolution of risk management in order to effectively meet the evolving/changing business environment of the new economy. He recognizes that each business is different and guided by a business model that differentiates and positions each company for success against a competitive market place. Accompanying these business models is a traditional approach to risk management --- traditionally risk is an afterthought and not a strategic component for managing the business. According to Deloach, “current risk management approaches are fragmented, treating risks as disparate and easily compartmentalized. While their tight focus on loss prevention is not
necessarily a bad thing, neither is it a good enough thing because they are not adequately integrated with the evaluation and optimization of growth and capital” (Deloach, 2000). To truly be effective, risk management must be forward looking not just dealing with history. Risk management models must be integrated into strategic business planning. The model proposed by Deloach’s assessment is EWRM, enterprise wide risk management. “It features shared organizational goals and broad coordination or ‘strategic control’ and yet provides freedom to act within well-defined boundaries. It facilitates the management of risk in a world of uncertainty, leading to broad optimization of opportunities, risk, growth and capital…. EWRM is a structured and disciplined approach: it aligns strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the uncertainties the enterprise faces as it creates value. ‘Enterprise-wide’ means an elimination of functional, departmental or cultural barriers. It means a truly holistic, integrated forward-looking and process-oriented approach is taken to manage all key business risks and opportunities – not just financial ones – with the intent of maximizing shareholder value for the enterprise as a whole” (Deloach, 2000).

Deloach has experienced first hand organizations using or evolving risk management models where:

- “The board and senior managers are in a position to confidently make informed decisions regarding the trade-off between risk and reward, and daily business decisions at the operating level are made within the context of the company’s strategies for bearing risk;
• The risks relating to the firm’s resources of value in the new economy such as its customer base, its distribution partners, its supply chain, its intellectual and knowledge capital, its processes and systems are acknowledged and optimized just as fully as its physical and financial assets;
• The need for operational control is balanced with entrepreneurial empowerment;
• Risk management is actively integrated with strategic planning and risks are systemically identified and managed on an aggregate basis by executives who are accountable for their choices;
• New – and existing – investments are evaluated on both a stand-alone and portfolio basis; and
• The company understands its risk management capabilities so thoroughly and its processes are so well aligned, that it can move quickly on opportunities that would be cause for trepidation or failure in less sophisticated organizations.

This is no pipe-dream” (Deloach, 2000).

No one model of risk management will fit every company. However certain key framework components should exist, if a true transformation of existing risk management structures is to be successful. First, the leaders of the organization must establish risk management at part of the strategic planning process. The board should establish the boundaries for risk taking. Within these boundaries, executive management constructs business strategies and identifies the trade-offs between risk and reward that accompany each. Where opportunities arise and contain risks outside defined boundaries, then management must seek board input to either proceed or forego the business opportunity. Accountability must be well defined throughout the organization and oversight mechanisms should be in place to assess progress and results. Second, the organization must
determine that all assets, not just financial and physical, are being leveraged to gain optimal value. Third, risk assessment processes must be well defined and the organization trained to incorporate risk management into day-to-day management practices. Fourth, risk management systematically provides for a broad discussion of risk across the organization and once risks are identified they are managed in accordance with established accountability levels within existing management structures. Lastly, the risk management model is integrated throughout the organization in order to provide the foundation to assess and respond to rapid changes in the marketplace.…

EWRM is not without its critics. Senior executives are rewarded based on performance measures, particularly the bottom-line. If the value of EWRM cannot be measured it is unlikely to gain broad acceptance. However, the counterpoint is that business risks exist and if one waits for a risk-related event that negatively impacts the bottom-line, it’s too late. It is a matter of taking a proactive position on managing business risks for your organization. There are also critics who admit the theory of EWRM is plausible, but find the application in practice difficult to implement. These critics look for a best practice model in their respective industries but are risk averse to being trailblazers themselves. Others recognize that risks exist in their organizations but are reluctant to identify and document them. Ignoring or failing to address known risks has led to the failure of many organizations. (Deloach, 2000)

In the for-profit corporate sector, managing business risk is management’s responsibility. However, boards of directors have the responsibility for ensuring management is effectively fulfilling this responsibility. In recent years, world renowned organizations experiencing crises, poor performance and/or complete failure have raised global questions regarding board members’ effectiveness is carrying out their oversight roles and responsibilities. Board members have become increasingly aware of the downside to not having effective risk management models incorporated with strategic planning holistically throughout the organization.

A research study sponsored by the Institute of Internal Auditors Research Foundation and conducted by PricewaterhouseCoopers focused on corporate governance and boards. The study was based on a review of corporate governance literature, a
survey of boards of directors, interviews with corporate leaders and the knowledge and experience of PricewaterhouseCoopers’ professionals. One area of focus in the research study was risk management. In the study, authors Richard M. Steinberg and Catherine M. Bromilow note “with the possible exception of strategy development, the topic most discussed at the board level today is risk” (Steinberg & Bromilow, 2000). The authors further note that boards “want to sleep comfortably knowing major surprises won’t hit their company”. The study outlines the board’s major responsibilities as twofold:

- First, to see that the organization has in place an effective, ongoing process to identify risk, measure its potential impact against a varied set of assumptions and do what’s necessary to proactively manage it.
- Second, the board also must be certain it is apprised of the most significant risks, and determine for each whether the right actions are being taken. Reality is that boards focus much more on the second responsibility than the first. Directors typically ask management about critical risks, and discussion ensues about actions planned or taken. But directors cannot be sure all key risks are discussed if they don’t have confidence in the company’s ability to surface them. Only a handful of boards are looking at management’s process to proactively find and deal with significant risks. (Steinberg & Bromilow, 2000)

Companies have begun to establish effective risk management processes according to the aforementioned study and consistent with Deloach’s assessment.

These companies have followed a conceptually straightforward approach of aligning their strategy, business objectives, risks, actions and controls.

- Starting with the corporate strategic plan, management identifies, by strategic initiative or business segment, the major objectives that if achieved will successfully implement the strategy and achieve the targeted operational and financial result.
- Management then looks at the risks related to those objectives. That is, it identifies the barriers, or things that could go wrong, and critical success factors that must go right to provide the greatest likelihood of success.
- Next management decides what initiatives; programs or other actions are needed to deal with the risks in a positive, proactive way.
- Controls are identified or designed to ensure the actions are in fact carried out as planned.
- The entire process is monitored over time, promoting its successful achievement.
While simple in concept, implementation of a robust risk management process is another story. (Steinberg & Bromilow, 2000)

The goal is to establish an infrastructure that consistently has the capability of identifying and anticipating risks. This infrastructure should be embedded in the strategy development process to enable it to be risk-focused.

Critical success factors for implementing a risk management infrastructure and capability include placing accountability for risk management throughout the organization, providing initial and continuous training, investing in front-end roll out through comprehensive communication and facilitation to support employees at all levels, and developing metrics to measure risk management performance. Risk must be viewed not only from the downside of hazardous risks or risks that create uncertainty, but also from the perspective of topside or opportunity risks. According to the study, “the key is linking strategy, objectives, risk and performance measurement. The more comprehensively and explicitly the company does this, the more assured management and the board will be that the strategic direction chosen is indeed the right one” (Steinberg & Bromilow, 2000).

Placing responsibility for risk management throughout the organization is critical for success. While the board has oversight responsibility, direct responsibility should cascade down through management layers. To ensure success, effective risk management must be embraced as a core competency of the organization. Steinberg and Bromilow’s study identified that most companies are placing direct responsibility for risk management at the business unit line level with centralized support within the corporate structure. An evolving new role in companies is that of Chief Risk Officer. The study
provides the following responsibilities model as one way of structuring risk management capabilities:

**Responsibilities for Risk Management**[^1]

<table>
<thead>
<tr>
<th>Role</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Unit Line Managers</td>
<td>Directly responsible for identifying, managing and reporting critical risk issues upstream.</td>
</tr>
<tr>
<td>Chief Risk Officer</td>
<td>Acts as line manager’s coach, helping them to implement a risk management architecture and work with it ongoing. As a member of the senior management team, the CRO monitors the company’s entire risk profile; ensuring major risks identified are reported upstream.</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>Monitors how well business units manage their risk, in coordination with the CRO. Increasingly, internal audit functions are focusing attention on business units’ risk management and control activities, bringing their skills and added value to the business. They also leverage knowledge of the line’s risk management architecture in targeting audit activity.</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>Handles risk management activities traditionally falling within the CFO’s purview, such as treasury and insurance functions. Applies concepts of value-based management and linking risk to value through performance. Some CFOs use models relating shifts in risk factors such as interest rates or commodity prices to movements in share value. Also, acts on behalf of the chief executive spearheading implementation of risk management architecture. An increasing number of CFOs play a key operating role, and are well positioned to drive their companies to competitive advantage through leading-edge risk management.</td>
</tr>
<tr>
<td>Legal Counsel</td>
<td>Typically reports to top management and the board on significant external exposures (form lawsuits, investigations, government inquiries) and internally generated matters (criminal acts, conflicts of interest, employee health and safety issues, harassment). These reports help complete the picture of company risks.</td>
</tr>
<tr>
<td>Chief Executive</td>
<td>Brings power of the CEO office to risk architecture implementation. The CEO needs to support, and be perceived as clearly supporting, the necessary focus on risk management.</td>
</tr>
</tbody>
</table>

[^1]: Adapted from the Institute of Internal Auditors Research Foundation, Steinberg and Bromilow, 2000, *Corporate Governance and the Board – What Works Best*
Where the board fits in is generally in the company’s audit committee. However, at the board level it is more important that the board effectively fulfills its role in oversight and monitoring for risk management than where risk management responsibility fits within the board structure. According to the study, “what is important, when you cut through it all, is that the board oversees all key risks and ensures a holistic, ongoing risk architecture to identify, manage and monitor risk” (Steinberg & Bromilow, 2000).

Managing risk successfully is of utmost importance in the for-profit corporate sector because it faces change at constantly increasing speed. Factors driving change and its speed include global competition, increased use of powerful technologies particularly the internet, fewer trade barriers and increased global investing, deregulation of large industries, changing organizational structures resulting from reengineering, downsizing and business combinations, and increasing pressure from customers for improved service and quality.

The Financial Executives Research Foundation, Inc. sponsored an in-depth case analysis of risk management practices of several companies in the for-profit sector. In addition to presenting the in-depth case analysis, the objectives included identifying emerging patterns of risk management that could be useful to companies in developing enterprise-wide risk management systems. The research included in-depth interviews on site with senior management and other key employees. Companies were selected from a cross-section of industries: agriculture, chemical, energy, financial services and technology. The study confirms the importance of risk management as a key component of strategic planning that continues to evolve in the sector. The authors note that there
was no intention of developing a uniform framework for risk management. If anything, it confirms that no one model fits all companies (Barton, T.L., Shenkir, W.G. & Walker, P.L., 2001).

The research provides “value” lessons learned. These lessons are important considerations for design and implementation strategies for enterprise-wide risk management initiatives. The first lesson is overriding from all five companies studied:

- Value Lesson 1: A cookbook recipe for implementing enterprise-wide risk management is not feasible because so much depends on the culture of the company and the change agents who lead the effort.
- Value Lesson 2: To manage effectively in today’s business environment, companies should make a formal, dedicated effort to identify all their significant risks.
- Value Lesson 3: Various techniques are available to identify risk, and once identified, the process of identification should be dynamic and continuous.
- Value Lesson 4: Risks should be ranked on some scale that captures their importance, severity, or dollar amount.
- Value Lesson 5: Risks should be ranked on some scale of frequency or probability.
- Value Lesson 6: Measure financial risk with the most sophisticated and relevant tools available, such as VAR (value at risk measures the worst expected loss over a given time interval under normal market conditions at a given confidence level) and stress testing.
- Value Lesson 7: Develop sophisticated tools and measures that meet the organization’s needs and that management can easily understand.
- Value Lesson 8: Know your company’s and your shareholder’s appetite for risk.
- Value Lesson 9: Apply more vigor to measuring non-financial risks whenever possible.
- Value Lesson 10: Companies are choosing various combinations of acceptance, transfer and mitigation to manage risk.
- Value Lesson 11: Decisions regarding control (an application of mitigation), acceptance and transfer are dynamic – they must be continuously reevaluated.
- Value Lesson 12: Seek creative solutions and transfer risk where economic opportunities exist.
- Value Lesson 13: Organizations should adopt an enterprise-wide view of risk management.
- Value Lesson 14: Consultants, if they are used, should supplement, not replace, senior management involvement in the risk management effort.
Value Lesson 15: Successful companies are good at managing silos of risk. Enterprise-wide risk management offers them more effective risk management at potentially lower costs.

Value Lesson 16: Making risk consideration a part of the decision-making process is an essential element to enterprise-wide risk management.

Value Lesson 17: Risk management infrastructures vary in form but are essential to driving throughout the organization the idea that decision makers should consider risks.

Value Lesson 18: A prerequisite for implementation of enterprise-wide risk management is the commitment of one or more champions at the senior management level. Enterprise-wide risk management will succeed only in organizations where senior management is ready to put its full faith and effort into the program. The integration process requires a delicate balancing of various interests and skills and may affect some well-ensconced fiefdoms. Technical readiness and formal processes are important, but only high-level champions will make enterprise-wide risk management live up to its enormous potential (Barton et al., 2001).

Summary

Higher education leaders and managers can look to the for profit corporate sector to consider potentially effective institutional-wide risk management models for colleges and universities. As noted in the for-profit sector research, no one uniform model will exist for all entities. However, the lessons learned have applicability and provide the foundation for college and university administrators. Success factors will require the trustees, president and senior management to establish a tone of importance for the initiative, specifying it to be a sustaining approach to managing the institution’s resources. Champions of the initiative would need to include senior level executives, as well as, deans, department chairs and their business administrators. The diverse cultures, existing silos of risk management and “well-ensconced fiefdoms” (Barton et al., 2001) will present barriers to successful implementation.
CHAPTER 3: RESEARCH METHODS AND CASES

In order to explore theories and evolving practices that center on enterprise-wide risk management (EWRM) models, I conducted a multi-industry study and developed mini-cases for the most promising models. I used purposive sampling to select companies that were identified as having established and/or evolving EWRM models and a cross section of universities in early adopter stages or considering approaches to implementation.

To identify potential companies I collaborated with the global accounting firm of PricewaterhouseCoopers (PwC). PwC representatives assisted me by identifying client companies with reported EWRM models, determining the validity of their clients’ actual progress, and gaining access to those selected for study. Studies outside the industry included a medical care and cancer research institute, a global investment bank and a top 35 financial services entity.

From my work at the University of Pennsylvania and higher education professional associations, I utilized purposive sampling to select two University of Pennsylvania peer research institutions and three additional top 50 national universities – doctoral as ranked by the U.S. News and World Report’s 2003 Edition of America’s Best Colleges. The design of a “one size fits all model” was not the intention of this research. Assessing the feasibility and transferability of a general framework to guide the holistic consideration of risk as a critical component of college and university strategic planning initiatives and operations was the focus. My data collection efforts were designed to include interviews with higher education leaders, including trustees, presidents, chief academic officers, deans, administrative vice presidents, general counsels and operational
management. I explored recognizing the need and value of an institutional-wide risk management framework, potential functional designs, measurements of success and barriers to implementation.

The cases include the following universe:

- World renowned Medical and Research Institute: A sentinel event resulted in relentless pressure from external and internal stakeholders to develop and implement the healthcare industry’s best practice risk management model for patient safety and medical error management and reporting. Additionally, this entity’s response to the event has been identified as a benchmark for managing reputational risk.

- One of the top 35 largest Banks (Financial Services provider) in the United States: Managing credit risk has long been practiced in the banking industry. This entity has embraced EWRM and expanded risk management across the entire spectrum of the organization. It has implemented an EWRM model that places accountability and responsibility at the business unit level. It utilizes a risk rating system for self-assessment and reporting. A corporate risk management oversight group is utilized to validate business unit reporting.

- West coast research university: The failure of this institution to effectively manage compliance risk brought change to the entire higher education industry. Approximately twelve years later the scars remain. This institution is setting the pace for managing research compliance risk. Is there institutional will to broaden the focus to EWRM?
Northeast corridor research university: Learning from peer institution experiences and emulating initiatives at the University of Pennsylvania, this Ivy League peer is taking a unique approach to EWRM. What are the critical success factors and institutional barriers? Will the institutional culture embrace EWRM as a necessary strategic business process?

Three top 50 national universities - doctoral are taking various approaches to risk assessment. What are the drivers and critical success factors for their evolving institutional wide risk management initiatives? Are piecemeal approaches effective?

These cases include entities with very different characteristics:

- Locations (including locations in different size cities and towns, near population centers and beyond);
- Types of services (global investing, health care, research, financial services, education and research);
- Size and complexity (multi-million to multi-billion dollar organizations, centralized, matrix and highly decentralized, a few thousand to hundreds of thousands of employees);
- Corporate/institutional cultures and traditions.

They also have a diverse set of objectives for addressing risk management:

- A sentinel event resulting in a patient death was the primary driver
- A proactive focus to mitigate the likelihood of a sentinel event
- An increasingly complex business model accompanied by increased risk
- Key stakeholder and competitive pressure to address risk broadly
- Decentralized model with each business unit responsible
Corporate level oversight and monitoring group

Senior representatives from the identified companies and higher education institutions were interviewed in person or by phone. The representatives serve either as president, chief business officer, dean, executive vice president, chief operating officer, chief operational risk officer, chief compliance officer, or chief audit executive. These representatives were selected for various reasons:

- They envisioned the EWRM model and empowered other members of their senior leadership team to strategically design and implement it,
- They have designed or championed the EWRM model at the direction of their board due to a sentinel event,
- They are being proactive in response to EWRM literature and are evolving EWRM due to the changing business environment,
- They have long-standing responsibilities for the traditional risk management function and understand the need to broaden this capability
- They have been given direct responsibility by their board to evolve EWRM and build an institutional-wide risk management capability.

Data Collection

Personal interviews provide the richest information and the opportunity to observe the entity’s model first-hand. Therefore, interviews were scheduled at these entities when possible. Visiting with entity representatives on site allowed me to assess the culture of the organization and obtain impromptu interviews with other key individuals. I used my industry network and PwC representatives to establish contact and schedule the interviews with these key representatives.
One PwC representative served with me to conduct the studies of companies outside higher education. After interviews were completed, notes were shared to ensure all critical points were captured and articulated as shared in the interviews. I conducted the interviews with higher education leaders in person on their respective campuses. Two interviews were conducted by phone. Notes were developed after each interview and key points confirmed. These notes became the building blocks for developing the case for a framework for higher education. Follow-up questions were handled through phone interviews. Access to key representatives was accomplished in accordance with commitments made during preliminary inquiries for on-site visits and interviews.

I triangulated my data through the extensive use of other sources. I accessed information on each entity’s website, reviewed annual reports, and reviewed existing case studies. PwC engagement partners assigned to the client company were interviewed to confirm the status of EWRM models.

The interview guide was focused on four key themes. First, I inquired about the strategy for an EWRM model. What were the key drivers that led to the vision, strategy, tactical design and implementation? Second, I inquired about the functional design, infrastructure and financial resources committed to the model. What is the reporting structure of the EWRM model within the organization? How is it staffed? What knowledge, skills and expertise are needed in the EWRM team? Is there a designated Chief Risk Officer? I explored the experiences occurring in an EWRM model on a daily/weekly/monthly/annually basis. Third, I inquired about the “measurements for success” used to evaluate performance of the EWRM model. What are the recognizable benefits in the near term and expected for the longer term? What metrics are used to
assess value-added? Lastly and of critical importance, I inquired about “barriers to success” of the model. What barriers arose? How were they overcome or have they been? (See Appendix A for further elaboration)

In order to obtain access to those interviewed for this qualitative study, I committed that the interviews would be held in strict confidence. No reference is made to any individual or institution by name or other identifying characteristics. Based on the outcomes of the interviews the data collected is presented in accordance with the role of the individual within the institution/industry. The roles include trustees, presidents, academic officers (provost, dean), vice presidents and senior administrators (financial/administrative vice president, general counsel, research, risk management and internal auditor).

For entities outside the industry the data were obtained through interviews with key leaders that have responsibility for the fully developed enterprise-wide risk management models in their respective organizations. The industry data are presented in summary form with common themes and critical success factors outlined.

Analysis Procedures

The data analysis was inductive, and I attempted to identify common themes and emerging patterns. Each organization provided the basis for a separate study. The interview notes were written consistently to capture the essence of the questions in the questionnaire. I conducted individual case analysis. In the analysis, I identified common themes among the companies and institutions in our study.
Ensuring Trustworthiness

The data collection and analysis conforms to the highest standards of qualitative research. Instead of demonstrating constructs appropriate to quantitative research – reliability, internal validity, and external validity – I rigorously employed a parallel set of standards more applicable to qualitative research. Qualitative research establishes the trustworthiness of its findings by demonstrating that findings are: (1) credible, (2) transferable, (3) dependable, (4) confirmable (Lincoln & Guba, 1985). Three techniques were employed to ensure trustworthiness:

- **Triangulation** – “Triangulation is the process of bringing more than one source of data to bear on a single point” (Marshall & Rossman, 1999). Credibility has been established using multiple cases and multiple informants.

- **Member Checking** – Member checking occurred in three ways with companies outside of higher education. First, debriefing sessions occurred with persons immediately following interviews to test our initial understanding of the data gathered. The second was the interchange between the informants throughout the project. The third was through validating the outcomes of analysis and interpretations with those interviewed. For interviews with higher education institution representatives, I conducted the interviews without representatives from PwC. The outcomes were crosschecked with PwC representatives who provide professional services to these institutions.

- **Audit** – the principle means of establishing dependability and
confirmability in a study is through an audit. An audit trail was established through a collection of documented processes, interview notes and raw data. This will allow an independent auditor to review both the processes and products of the study.

**Why Qualitative Methods and Case Study Approach**

Creswell defines a qualitative study “as an inquiry process of understanding a social or human problem, based on building a complex, holistic picture, formed with words, reporting detailed views of informants, and conducted in a natural setting. Alternatively, a quantitative study…. is an inquiry into a social or human problem, based on testing a theory composed of variables, measured with numbers, and analyzed with statistical procedures, in order to determine whether predictive generalizations of the theory hold true” (Creswell, 1994). Because of the relative newness of the EWRM concept a qualitative study provided an appropriate construct for exploration of the limited literature and the evolving models outside the higher education industry. Unlike a quantitative study methodology where the researcher remains distant and independent of that being researched, qualitative study allows the researcher to become involved in the research situation (Creswell, 1994). The intent of this study was exploratory research to assess whether EWRM theory and practice in other industries is transferable to the rapidly changing business environment of higher education. Variables were unknown therefore making context of utmost importance. The disadvantage of a qualitative study is representatives of the selected cases may oversell the richness and success of EWRM in their companies. The Enron debacle provides an excellent example. Enron was approached purposively to participate in this study because it was reported to have a “best
in class” fully operational EWRM model. In anticipation of this study inquiries were made with Enron representatives through both PwC and my professional association contacts. Enron rejected site visits by informants and phone interviews just months prior to the company’s reported failure and bankruptcy.

**The Researcher**

My interest in the topic of risk management from a broader perspective than insurable risk began with my work at the University of Pennsylvania (Penn) in 1996. I was successful in gaining trustee approval for adoption of the Treadway Commission's Committee of Sponsoring Organizations' (COSO) report, *Integrated Internal Control Framework*, as the foundation for Penn's internal control system and a risk based audit planning model developed during my tenure at Vanderbilt University, prior to joining Penn. Penn’s model gained recognition within the higher education industry. My progress advancing theory to practice resulted in discussions with leaders in the national associations serving higher education. I have spoken nationally on two different occasions to institutional representatives of NACUBO. In 1999 and again in 2001, I delivered presentations on the topics, “Holistic Risk Management in Times of Continuous Change” and “Institutional-wide Risk Management – Experiences at the University of Pennsylvania”, respectively. Both presentations discussed Penn's adoption of the COSO framework and how that has advanced to a broader model for institutional-wide risk management. As the concept of enterprise-wide risk management gained visibility in the for-profit corporate sector, NACUBO and PwC co-sponsored a think tank session in Washington, D.C. in 2000. I participated with other representatives from colleges and universities from around the country. The cohort for this session was comprised of chief
business officers, risk managers, chief audit executives, higher education association leaders, and representatives from the risk management services division of PwC. The outcome of these discussions led NACUBO and PwC representatives to co-author, *Developing A Strategy to Manage Enterprisewide Risk in Higher Education*. Penn’s executive leadership has embraced my vision for a comprehensive risk management program. I was charged with the responsibility of implementing this program university wide. If I have any bias, it stems from my passion for determining if EWRM models are transferable to Penn and the higher education industry. While these experiences position me as an insider for this study, there is much to be learned from studying existing models and determining a best practice framework for higher education.
CHAPTER 4: RESEARCH STUDY

Introduction

Discussing institutional-wide risk management with college and university leaders has proven to be a timely topic. As one university president (President #1 in the case write-up) noted:

Prior to the terrorist attacks on New York City and Washington D.C. on September 11, 2001 it would have been difficult to engage college and university presidents in a dialogue on risk and risk management. Today, thinking among presidents has broadened past the risk of terrorists’ attacks on a university campus to include all risks across the institution. Institutional-wide risk management is a timely topic not just now but for the future.

Since interviewing the aforementioned president, corporate America has been negatively impacted by the daily reports of corporate scandals at global companies, i.e. Enron, WorldCom, Tyco and Adelphia. One of the scandals, Tyco, has touched higher education directly. A recent news report in the September 16, 2002 Chronicle of Higher Education cited investigations are broadening into determining the source of funds for a gift (reported by the Wall Street Journal to be at $5 million) to Seton Hall University by Tyco’s former CEO, L. Dennis Kozlowski. According to the Chronicle of Higher Education Seton Hall’s most prominent academic building bears Mr. Kozlowski’s name.

In addition, The New York Times reported on Sunday, November 10, 2002 that Tyco shareholders are laying claim to a $4 million donation to Cambridge University. “The money was used to create the Robert A. G. Monks chair in corporate governance, a program that promotes research into corporate accountability and is named after an American shareholder activist who had often praised Mr. Kozlowski and served on the Tyco board from 1985 to 1994.” Cambridge claims neither Tyco International nor Mr. Kozlowski had any influence on appointing the first chair last year. Cambridge is
reported to have no intentions of returning the funds. Mr. Kozlowski is facing criminal charges for fraud and misuse of corporate funds. It appears the trials and tribulations of corporate America may have direct implications and risks for higher education. Claims to recoup donations given for facilities and endowed faculty chairs strikes at the cornerstones of higher education institutions. Corporate governance and leadership at the top are key components of any organization’s institutional-wide risk management structure.

In 1996 the Association of Governing Board’s (AGB) Commission on the Academic Presidency undertook a study around these questions: “Is the present system of governing American colleges and universities up to the demands of today and the foreseeable future? If not, what needs to change?”

What has changed since 1996, one might ask. From my perspective, and persons interviewed agreed, the answer includes: the persistent and increasing intensity of the demands on higher education institutions’ governance and leadership structures and capabilities. The changing business environment of higher education is creating the need for enhanced strategic focus on managing and mitigating institutional-wide risks as a component of strategic planning and operational management.

The University of Pennsylvania (Penn) embraced a vision for institutional-wide risk management in 1996 by incorporating into its strategic plan, Agenda for Excellence, a goal to develop mechanisms for effectively managing risks. The university’s trustees, president, executive vice president and chief academic officer continue to focus current strategic planning on Penn’s readiness to be competitive and responsive in a changing business environment. Being competitive and responsive includes a holistic consideration
of risks across the institution. I began this study because of professional interests and experience in transformational change management that focuses on holistic risk assessment during times of continuous change, particularly where strategic and operational plans provide the roadmap for the change management journey. Developing an institutional risk management structure and championing the dialogue and action is a key component of my position at Penn. My research and dissertation is focused on investigating institutions within higher education and enterprise-wide risk management models evolving in the corporate sector and the lessons learned from for-profit companies and a not-for-profit healthcare entity.

Managing risks at a college or university presents unique challenges in terms of managing resources, leading people and making strategic decisions. In Chapter one, I outlined a conceptual framework for risks that included five categories: strategic, operational, financial, compliance and reputational risks and provided definitions for each. To provide more detailed examples I have compiled a more comprehensive list. You will find some of these specifically referenced in the case analysis. Others have been included based on my twenty-eight years of experience in the industry. In the top tier category of institutional-wide risks, the following risks are most likely to be of greatest concern on college and university campuses today:

- **Faculty** - potential defection of current star faculty, constant competitive pressures in faculty recruitment and retention, potential turmoil resulting from resource decisions and leadership conflicts
- **Enrollment** – downturns in student applications in certain programs, schools or across the entire institution
• **Facilities** – aging facilities and the constant trade-offs between the renewal of existing structures versus constructing new facilities

• **Student Life** – drug and alcohol use, acquaintance rape, fraternity/sorority issues, suicides, infectious diseases (HIV, Hepatitis), student competitions requiring travel in university owned vehicles

• **Financial** – endowment performance, tax compliance, impact of financially constrained academic medical centers on the non-medical schools, entrepreneurial ventures and non-traditional educational programs

• **Research** – increasing stringent federal regulations and oversight of human subjects, compliance with conduct of research and financial cost accounting rules, controversial sources of research funding, i.e. tobacco monies, politically unpopular research findings, environmental and radiation safety issues

• **Human Resources** – rising cost of employee benefit programs, i.e. health care costs, labor tensions, graduate student unionization, turnover, lack of consistent performance measures applied holistically across the institution

• **Crime and Safety** – international students and visiting foreign national faculty, 24/7 access to buildings, foreign travel by students, faculty and staff, crime on/near campus, students living in off-campus housing

• **Local and State Government** – maintaining arms length relationships while lobbying for benefits (appropriations, grant funding, law enforcement) favoring the institution, sensitivity to neighborhood initiatives in urban settings
• **Information Technology** – aging IT systems (development, admissions, financial, payroll, student records), constrained resources constraining implementation of the latest and greatest, i.e. wireless networks, which impacts student recruitment and marketplace competitiveness, maintaining core systems, supporting non-traditional off-cycle academic programs.

The list is not intended to be all encompassing. Each risk area falls into one or more of the five components of the institutional-wide risk management framework components. For example, an unanticipated enrollment downturn, significant enough to drop an institution’s national ranking, would negatively impact strategy, finances, operations, and reputation.

As you proceed through the case analysis keep in mind the unique complexity of leading and managing colleges and universities. This complexity provides the foundation for assessing the feasibility of a general framework to guide the holistic consideration of risk as a critical component of college and university strategic planning initiatives and operations management.
The Case Studies

Trustee Perspectives

Trustees bring varied interests, enthusiasm, opinions and resources to the boardrooms on college and university campuses. Their well-intentioned opinions are often reflective of the world they live in daily. With intentions to be constructively supportive, trustees who live in the for-profit corporate sector often view college and university administrators lagging in the adoption of good corporate business practices. They often make suggestions, and some even go as far as setting expectations for the adoption of business practices that they believe will improve the efficiency and effectiveness of resource utilization. This is particularly true for trustees serving on independent college and university boards. Public institutions are often governed by bureaucratic processes and have less flexibility to bring about significant change in state government controlled practices. I interviewed a university trustee who serves on the board of an independent university. I will refer to this trustee as Trustee #1 although only one trustee was interviewed for this qualitative study. The university was ranked in the lower quartile of the top 50 national universities – doctoral as ranked by the *U.S. News and World Report’s 2003 Edition of America’s Best Colleges*. Trustee #1 is a partner in a global professional services firm serving both for-profit and not-for-profit clients.

Trustee #1 believes effectively managing risk is a critical component to successful leadership of any organization. How organizations structure their risk management framework and place responsibility for identifying, assessing and monitoring risk throughout the organization has a great deal of variability. When he assumed his university trustee role he was placed on the Audit Committee of the Board. He was
surprised to find that management had conducted a risk assessment through the university’s outside legal counsel. While the assessment was limited in scope, it was a good first step from his perspective. The objective of the risk assessment was to focus on identifying risks, assessing the impact of any risks identified and the probability of occurrence. The assessment was limited to overall environmental safety matters, research labs and chemical labs. Based on the results of the assessment, the university reviewed both its insurance coverage and contracts with external third parties. Contract language was modified to insure that future agreements provided greater degrees of risk sharing with external third parties. The intent was to insure the institution was sufficiently safeguarded against the results of an environmental spill of toxic waste or an undesired event (chemical spill, explosion, fire) in either a basic research lab or chemical lab. In addition to these specific areas, student behavior was another area of focus. Controlling students’ social behavior is more difficult and continues to be a topic of concern and discussion.

Based on Trustee #1’s observations risk management at this trustee’s university is not a component of strategic leadership or management. It is an important annual task undertaken by general counsel and/or others within the management ranks to protect the university’s assets. The focus is limited to specific areas such as compliance risks and operational risks. It would not be considered a holistic approach within the construct of the framework this study has defined in Chapter 1. Risk management is not imbedded in the strategic plan, and goals are not aligned in the plan to focus on the identification and mitigation of risks. Interest in protecting the institution’s reputation from a serious
negative event is in the back of everyone’s mind, but it is not articulated as a strategic commitment.

According to Trustee #1 embracing an institutional-wide risk management framework and common language would require trustee support as a minimum. To be truly effective trustees would need to set the expectation for such to be developed. Otherwise in his opinion, other priorities such as campus development, new information technology systems, student services, and academic program growth will always supercede in importance to advance the institution’s mission. He noted that risk management is not sexy and visible. “No university president’s legacy to an institution will have ’effective risk management’ inscribed in the institution’s history.” From his perspective and experience, the most realistic approach for implementation may be imbedding the focus on risk within the day-to-day management structure of any college or university. These initiatives are probably best carried out by the non-academic side of the administrative leadership team. Not many presidents, deans or faculty will have the “know how”, but he believes they should understand the importance and support the effort.

Trustee #1 believes that incorporating an institutional-wide risk management framework would be most successful if a college or university could demonstrate that it provides a distinct competitive advantage in the market place. Measuring competitive advantage would be a real challenge, and Trustee #1 could not provide a specific transferable example from the for-profit sector. However, a few thoughts arose that are university specific. For instance, if a university had a recognized institutional-wide risk management capability would its competitiveness for federal grants and contracts be
enhanced? If a campus were known for its safety because of a recognized risk
management model that enhances safety, would top students be more inclined to accept
admission offers? From Trustee #1’s viewpoint, if a university was noted for the reverse
of these scenarios it would create major negatives. He emphasized that initiatives that
project the potential to provide strategic competitive advantage in relation to the
competition are often allocated resources and management support in the for-profit
sector. He believes the same would hold true in colleges and universities.

Trustee #1 has worked with many clients in the for-profit sector to implement
enterprise-wide risk management models. While he believes this model is transferable to
higher education or any industry for that matter, he identified a number of barriers unique
to higher education institutions based on his experience as a university trustee and service
provider to the higher education industry. First, passive trustees and/or presidents would
be a major hurdle to overcome. Without support at the top of the organization, any effort
will be slow in developing and probably embraced only piecemeal within the
organization, if at all. Second, the higher education culture itself is a significant barrier.
There is reluctance to consider new progressive initiatives, particularly on the
administrative leadership/management side. In his opinion, the industry prefers and
breeds status quo thinking. Trustee #1 knows there are exceptions at various institutions.
He referenced one client that is guided by trustee influence that focuses on bringing
corporate best practices to the university’s administrative processes. This client’s trustees
have no interest in benchmarking using peer institutions. They do not view peer
institutions’ processes as best practice. Third, Trustee #1 has observed that higher
education does not readily embrace change or respond quickly to a changing business
environment. Higher education institutions are more prone to reacting than being proactively engaged in assessing industry trends, changing demographics and economic conditions. Only a few institutions seem to be effective at accumulating and managing strategic information effectively. Fourth, the “cost/resource commitment” question will need to be answered regarding an institutional-wide risk management framework.

Trustee #1 finds the focus on cost containment versus strategic resource investment a significant contrasting feature when comparing the not-for-profit and for-profit sectors. In the for-profit sector the focus is on investing resources to create value and resulting financial gains for continued reinvestment. In the not-for-profit sector cost containment is a strategy without specific objectives for reinvestment clearly articulated and measured. An institutional-wide risk management framework that creates measurable value would be successful. Last, Trustee #1 has observed that higher education’s senior management is reluctant to place responsibilities at lower levels of management. Based on his experience higher education employees are the most under-managed work force in any of the industries he serves. They are also the least trained, a circumstance that he finds ironic given the teaching mission of the institution. Responsibility for managing risks is everyone’s responsibility and that responsibility has to be placed and measured throughout the institution with rank and file staff if a successful framework is to be implemented.

The notion of an institutional-wide risk management framework is feasible but requires support/sponsorship from the top. Trustee #1 believes senior management on the non-academic side of the administration should be charged with implementation and keeping energy around the topic of risks. A specific functional unit or person should be
identified to champion the conversation. At this trustee’s institution the internal audit function is too small and staffed with individuals with traditional financial backgrounds. They would not be viewed as having the capability of successfully integrating an institutional-wide risk management framework within the strategic leadership and management of the institution. Currently the general counsel and senior management conduct meetings annually with deans and other administrative managers to keep the conversation and thinking about potential environmental risks on their agenda.

**Presidential Perspectives**

I interviewed two college and university presidents at distinctly different institutions. While both fall within the Carnegie Doctoral/Research Universities – Extensive classification, they are different in physical location, size, complexity and market segment but with a common mission: research, teaching and service. I will refer to interviewees as President #1 and #2. Each was provided in advance of the interviews my research study abstract, Chapter 1 of the dissertation proposal and a short biography of my professional career. Both presidents have initiated institutional-wide risk management initiatives at their respective institutions and have established a “risk conscious” tone at the top.

President #1 serves a university in the upper quartile of the top 50 national universities – doctoral as ranked by the *U.S. News and World Report’s 2003 Edition of America’s Best Colleges*. This president has served in various academic administration leadership roles, i.e. department chair, dean, and provost. This is her first university presidency position. Managing institutional-wide risks was embedded in her strategic

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4 I have purposefully assigned gender as female when referencing President #1 and President #2 to maintain confidentiality.
plan developed in concert with the trustees. This notion of improving existing control and risk management mechanisms was driven by the university’s board of trustees, especially those serving on the trustee audit committee. Once the plan was far enough along to begin sharing with the university community, according to the president, it was a matter of launching the recruiting of qualified professionals to develop an implementation plan drawing on actual experience in higher education and best practices from the for-profit sector. President #1 serves on corporate boards and audit committees. In addition to being a world-renown scholar she is a proven business leader. President #1 is viewed by many inside and outside the institution to serve in a true CEO capacity for the university. According to President #1, she and the board of trustees established the tone at the top to aggressively manage risk. This thinking was applied to the university given these stakeholders’ experience in their own companies and/or from briefings on corporate boards.

President #1 gained greater insights into risk assessment models through members of her cabinet charged with the responsibility for managing business risks within the context of the goals in the strategic plan. In the Spring 2000, after briefings to President #1 and subsequent presentations to the board of trustees by the aforementioned senior members of her cabinet, President #1 assigned her entire cabinet (chief academic officer, executive vice presidents, deans, administrative vice presidents and student life vice presidents, etc.) a summer project. President #1 stated that she made the following request: “While away for the summer I request each of you to think particularly about the aspects of the university that you lead and what, if any thing, keeps you awake at night. What are the risks inherent in the organizational unit you lead? Also, you should think
broader about overall university risks as well. I would like for you to submit your informal reports to me over the summer. When we return in the fall, I plan for us to have an engaging discussion about risks and how well we are prepared to manage the risks you identify.”

According to President #1 the reports submitted reflected a great deal of strategic and honest thinking. Topping the list was the potential defection of current star faculty and competitive pressures in faculty recruitment. Second, was the potential for downturns in student applications for certain programs and areas of study. Aging facilities, crime near campus, human subjects research and endowment performance completed the list of top tier issues. When the cabinet reconvened in the Fall 2000, a two-hour discussion ensued just on faculty retention and recruitment matters. Incremental progress has been reported since this initiative was launched and top tier risks were identified. Unfortunately other events have required focused attention and follow-up with the cabinet has not occurred but is being planned.

President #1 believes it is critical for college and university presidents to incorporate institutional-wide risk assessment into the strategic planning and operations of their institutions. As noted in the Introduction section, President #1 believes strongly that presidential peers are thinking broadly about risks at their institutions. President #1 also acknowledges a framework does not exist to guide colleges and universities through a rigorous risk assessment process. Efforts to address risk are focused on solving events as they occur. President #1 was not aware of any other institutions taking a similar holistic approach as she had with her presidential cabinet.
In response to designating someone to champion the discussion or creating a Chief Risk Officer, President #1 responded that a senior member of her cabinet was responsible for championing the initiative using a key member of their senior management team who leads the audit and compliance function. President #1 indicated that the key success factor was having knowledgeable leaders to drive strategic goals to reality. The responsibility for managing risks and keeping the topic on the forefront is assigned and part of other responsibilities. No big bang launch occurred. The risk assessment and risk management process has been incrementally implemented as part of the overall strategic plan. In response to barriers to implementation, President #1 indicated that the highly decentralized nature of the institution pushes decision making out into the university. Therefore communication and training must be effective. In addition bringing change to a college or university is never easy. It takes commitment and a broad understanding of the institution to reach out to those within the leadership structure and remove whatever barriers arise, even if it requires reaching out to the president and the board when necessary.

President #2 serves a university in the lower quartile of the top 50 national universities - doctoral as ranked by the *U.S. News and World Report’s 2003 Edition of America’s Best Colleges*. She is a world-renown scientist serving as president for the first time. At the outset of the interview President #2 had a set of questions she wanted to discuss prior to responding to mine. She thought the dialogue would help assess the foundation I was coming from and prompt her to think more broadly. The president was interested in Penn’s initiatives and what my research had determined thus far about holistic risk management models. While this may be viewed as biasing the conversation,
the conversation and information exchange that followed was consistent with President #2’s strategic plan for the institution.

President #2 transitioned to my questioning by stating that the topic of holistic risk management in colleges and universities was critically important. She believed risks across all boundaries of the institution must be anticipated and managed effectively. She believed for strategic discussions that the risk categories: strategic, financial, operational, compliance and reputational are a good way to structure the thinking about risks. She indicated that more than ever before college and university presidents must be and are thinking about risks, particularly since 9/11. She indicated their focus is broadening about the notion of considering risks not just as isolated incidences, i.e. safety/crime, student life matters related to alcohol consumption. President #2 believed key success factors included success itself as a measure, along with transparency, cost benefit justification, and inclusion in both strategic plans and accompanying annual performance plans.

When asked about a risk management champion or designated Chief Risk Officer, President #2 responded that everyone in the institution is responsible to one degree or another for managing risks. She specifically looks to the senior management team to push the notion down through the organization through effective human resource training programs and incorporating measures in annual performance plans. In President #2’s opinion no one area can carry the complete responsibility. The function to champion the initiative has to serve across all boundaries and be independent of operations. If staffed with knowledgeable and skilled personnel, the audit function within colleges and universities could serve that purpose. They are usually the best-positioned organizational
function to consistently assess the effectiveness of ongoing risk assessment activities against performance plans.

President #2 disclosed that with the assistance of outside consultants, she had set as an agenda item for her summer faculty retreat a facilitated session focused on identifying risk facing the institution. The institution was entering year two of its strategic plan and developing specific annual performance plans to measure each senior leader’s accomplishment towards the overall strategic plan. The top tier risks identified in this summer retreat are being considered in the development of these annual performance plans. President #2 would not discuss the specific risks identified. She did reference research compliance risks as a key area of focus because growing research is a key strategic objective for her institution. As the volume of research grants increases the administrative infrastructure must keep pace to insure researchers and the institution comply with rules and regulations. If not, then the institution could be impacted reputationally with negative publicity and financial penalties.

I inquired of President #2 whether she believed her career experiences in federal government, private research labs and serving on for-profit corporate boards, even chairing audit committees in the corporate sector, had influenced her thinking about institutional-wide risk management models and the notion of holistic risk management. The response was somewhat surprising. President #2 stated that most college and university presidents at large institutions and select others serve on various boards in the for-profit sector. These peers have come in contact with the topic regarding models needed or being evolved to manage organizational wide risks. What is needed among higher education leaders according to President #2 is a national forum of presidents,
provosts, and other administrative officers to come together to inform the discussion, share best practices and leave more informed than when they arrived. President #2 stated that the peer groups for our respective leadership roles meet at least annually if not more often. The national associations connected to these peer groups should design this forum. The topic is critical to strategic and operational planning. While no one model will fit every institution, valuable insights can be gained from knowledge of best practices at peer institutions.

President #2 stated in closing that institutional-wide risk management is critical to the overall success of any institution. A framework or common language has to be woven into the strategic planning and annual performance plans. Responsibility has to be placed throughout the organization with each member of senior management. “The greatest barrier to implementation is at the middle level management…are they well trained, committed to the institution to do the right thing…the what keeps you awake at night discussion referenced in your first chapter should be held at the middle management level, not just with the president and senior officers.”

**A Provost’s Perspective**

I interviewed the Provost at a large research-intensive university that is ranked in the second quartile of the top 50 national universities – doctoral as ranked by the *U.S. News and World Report’s 2003 Edition of America’s Best Colleges*. I will refer to this provost as Provost #1 although only one provost was interviewed for this qualitative study. Provost #1’s university is currently conducting a risk assessment but limited in scope. The assessment is driven by the events of the September 11, 2001 terrorist attacks on New York City and Washington D.C. The focus is primarily placed on research
laboratories. The objective is to determine what, if any, environmental, health and/or safety risks exist on the campus and develop action plans to mitigate them. While this is the only holistic risk management initiative undertaken by this university, Provost #1 noted that risks are considered when making decisions that are either entrepreneurial in nature, have the potential to drop the university’s national ranking by *U. S. News and World Report*, or increase reputational risks. Provost #1 provided the example of a recent decision made that places the university’s admission processes, including early decision, in public view on national television. The senior leadership discussed the opportunity for increased national visibility and the risks that unexpected issues might arise. An affirmative decision to accept the offer was made, as the senior leadership team believed the opportunities out-weighed the risks.

In response to a question regarding the potential benefits of an institutional-wide risk management framework and common language for discussing risks, Provost #1 stated that the strongest benefit is that it provides the foundation to cut across the entire institution as you strategically consider potential risk. For example he noted that if a lab explosion occurs, the university is at risk for personal lives and property, the core mission of teaching and research would be disrupted, the university’s reputation could be negatively impacted and the financial impact would include the need to rent space on an interim basis, the repair and replacement of property not covered by insurance and potential awards for personal injuries if the university were found negligent. He stated that the university has absolutely no excess space and he would have to consider leasing hotel meeting rooms for classroom space. If this were to occur, he is concerned it would have a devastating impact on academic programs and potentially enrollment. His
example left me with the impression that considerable thought has gone into “what if” strategizing by this university’s senior leadership team.

Provost #1 stated that forwarding thinking and venturesome colleges and universities that maintain a culture that rewards entrepreneurialism must think holistically to see the biggest strategic risks. When asked, he identified several implementation challenges.

First, conducting a truly intelligent assessment of risks and determining when to say, ‘yes’ to strategic decisions that come with risks attached is difficult. The institutional culture will determine if this assessment occurs. To use a sports analogy institutions that play to win versus those that play not to lose are more likely to have leaders that will support the risk assessment process. A second challenge is truly engaging in good and serious conversations about the biggest risks...you better see them early on in the planning stage. Many institutions focus on the most visible short-term issues or develop strategy based on giving attention to squeakiest wheels. An institution will need strong leaders to channel thinking on the big picture.

Provost #1 was asked how he would approach engaging the faculty in strategic risks discussions. He responded that faculty agendas are usually driven by their specific knowledge, research or other interests. According to him it will be critical to identify and empower appropriate leadership to diminish personal agendas. In addition, the university president must support the initiative by showing its connectedness to institutional priorities and goals. The president has to show faculty that initiatives such as institutional-wide risk assessment supports the academic mission of teaching, research and service.

In concluding our interview, Provost #1 stated that the institutional-wide risk management framework outlined in Chapter 1 has utility within the industry, but that each institution will need to adapt it to their respective culture. The president and senior leaders must address the connectivity of risk assessment and any resource commitment to
supporting the academic mission of the institution. The senior leadership team should function as Chief Risk Officers as they will be involved in evolving the strategies and identifying the biggest risks.

In response to the biggest risks facing his institution, he referenced his previous comments on the drivers of the current risk assessment underway. He also indicated that subsequent to the terrorist attacks risks related to anthrax poisoning were of great concern. He also stated that existing campus space would be fully consumed during the current administration’s tenure. Therefore recent efforts at capital planning with a twenty-year time line has surfaced a major risk…no space for future growth.

A Dean’s Perspective

I interviewed the Dean of the College of Arts and Sciences at a large research-intensive university that includes a medical school, multiple hospitals, and physician practices. The university is ranked in the upper quartile of the top 50 national universities – doctoral as ranked by the U.S. News and World Report’s 2003 Edition of America’s Best Colleges. I will refer to this dean as Dean #1 although only one dean was interviewed for this qualitative study. Dean #1’s university has an evolving institutional-wide risk management initiative, so the topic was not totally new.

Dean #1 began our conversation by noting that his university is unique in a number of ways from its peers, particularly its governance structure. The decentralized nature of the institution and autonomy afforded each Dean to manage resources without tight centralized control leaves the institution at risk. From his perspective risk is increased given the institution’s dependency on people serving in leadership capacities to think about and manage risks. Therefore a framework within which to dialogue about
risk would be extremely helpful in managing risk. He indicated that from the risk
framework presented in Chapter 1, provided in advance of the interview to help frame the
context of the interview, the reputational risk component is of key importance in terms of
striking home to him. He believes that getting institutions and their leadership team to
think about this one key area of risk is extremely important. He provided examples of
peer institutions that suffered unwanted publicity on the front-page headlines of national
newspapers when major donors withdrew gifts because monies were not being utilized as
intended. He cited the most critical risk for his school particularly, and the university
overall, would be the loss of an entire group of faculty. Losing a star group of faculty
would create morale problems internally and negative perceptions from the outside in
terms of what’s going on here with the exodus of an entire group of faculty. He cited a
recent exodus at another university of a group of leading African American scholars that
made national press and from his perspective impacted the reputation of that institution.
He stated that all major institutions risk losing one or two faculty to competitors, even
though he fights not to lose them, but he in turn will recruit one or two away from his
peers.

Dean #1 next directed his thoughts to issues he believed could devastate a
university or an entire segment of the industry. What would be devastating, because all
risks across the entire spectrum outlined in the framework come into play, would be
assaults on academic integrity. For example, he believes that if faculty were perceived as
being too easy and that students were allowed to breeze through the institution by not
showing up for class and suffering no consequences, it would kill the university or the
entire segment. Universities whose total costs are approaching $40,000 annually would
be traumatized if the perception existed that these institutions were not providing an experience commensurate with the high cost of the education.

Dean #1 believes the focus on risk management must be a priority and driven from the top leadership of the college or university. For a framework to be embraced and viewed as helpful, it will have to be sponsored by trustees, the president, deans and vice presidents. At Dean #1’s university the trustees, president and deans are more focused on risk management more so than at other peer institutions. The university has been guided by a strategic plan that included large investments of capital in both campus and community development. Significant risks were taken and they were good risks. Most have paid off while a few created pressures for additional resources above plan. Because of the high level of interest in effective risk management and having someone championing the conversation, risk management is slowly but effectively becoming part of the leadership focus. Dean #1 referenced a recent meeting with the chairperson of the board of trustees who meets with him periodically throughout the year. The trustee’s first formal question to Dean #1 was for him to describe the “risks” that exists for the School of Arts and Sciences. Dean #1 believes the major barrier to success is not having top leadership and key stakeholder support. In addition, he noted that while the discussion is occurring at his university a mechanism for tracking progress and reporting on known risks is not in place.

According to Dean #1, whether or not you identify a Chief Risk Officer is of little importance. However, it is important for someone to be designated to keep the conversation fresh by revisiting the topic of risk on a periodic basis with Deans and other top leaders. Dean #1 noted that every institution is different and would have to determine
within its own organizational construct how to approach managing risk across the institution.

**Senior Management Perspectives**

**University A**

University A is a large research-intensive university ranked in the upper quartile of the top 50 national universities – doctoral as ranked by the *U.S. News and World Report’s 2003 Edition of America’s Best Colleges* that developed a risk management oversight committee in 2000. I interviewed four members of the senior management team either instrumental in the initial establishment of the committee or currently involved in sustaining the initiative.

Senior Administrator #1, the ranking officer in position and experience of these four, confirmed the importance of a university wide risk management framework. However a key barrier at their institution is that the “tone at the top” is missing. Only select trustees are thinking about risk management, and the remainder and the president have many other initiatives that over-shadow the importance of this one. In the opinion of this twenty plus year veteran of higher education administration, any corporate models for enterprise-wide risk management will not be embraced in higher education because they are “corporate models”. Any effort to bring corporate practices into a university, particularly this administrator’s university, would be met with resistance. This senior administrator was quick to point out that the notion of an institutional-wide risk management framework is important. The challenge is to determine how to get the governance structure of the organization to embrace thinking about risk. This
administrator expressed interest that my research might work to elevate broader interest at the trustee and presidential levels across the industry.

According to Senior Administrator #1, success factors for an effective risk management framework are twofold. First, the board of trustees has to embrace it either collectively or through other standing trustee committees that would be served by trustees with knowledge and experience. The trustee audit committee would most likely be the committee the full board would entrust to focus on institutional-wide risk management. Second, the tone at the top must come from the president. Usually if the board of trustees communicates that a matter of interest is important for the university, then eventually if not initially, a president will act on the matter. The senior administrator confessed that her national peer group that represents 30 of the top research universities in the country is not thinking about risk management as a top priority. Only a few give this topic any real thought. The majority are very traditional in their thinking about campus priorities, i.e. campus development, information technology, financial resource constraints, and other campus agenda items with more visibility. To them risk management is about insurance and insuring risk not a framework to be woven into the strategic planning and management of a college or university campus. This mindset creates a significant barrier not only at these institutions but also within the industry.

The role or designation of a Chief Risk Officer will not be accepted widely according to this senior administrator. However, someone within the construct of the senior management team must be designated to champion an institutional-wide risk management focus. But to have any chance of success, the champion must be designated and sponsored by the president. This administrator’s president is not ready to take that
step. In addition, the structure of a college or university’s management will also be a
determining factor for success. This administrator’s campus is highly decentralized with
key decision making residing in the decentralized schools and centers. This structure
makes presidential sponsorship and support even more critical to successful
implementation.

Senior Administrator #1 enlisted the assistance of a colleague and peer
administrators on campus to begin discussing and identifying risk across the institution.
This initiative resulted from several events that negatively impacted the university. The
group meets four times annually, and the initial discussion was focused on designing an
early warning system for identifying potential risks. Given the decentralized nature of
the institution, the formation of this group is a major first step towards addressing risks.
They drew from the institutional-wide risk management efforts occurring at a peer
institution to inform their thinking and to manage early resistance, particularly from the
faculty representatives. While pleased with the progress, a tone at the top sponsoring and
supporting the importance of this evolving institutional-wide risk management initiative
would advance the effort more comprehensively.

Senior Administrator #2 at this institution was formerly employed in the for-profit
sector and therefore was familiar with the enterprise-wide risk management concept. She
readily identified the decentralized culture of higher education as a key barrier to the
success of any institutional-wide risk management initiative. This administrator does
not believe that her institution has embraced the importance of an institutional-wide risk
management program, or that risk awareness is a criterion in making decisions or
recruiting new leaders, particularly deans. If the president is not thinking about risk
management, then it will not be a priority. In addition, if administrative and financial vice deans are not empowered to influence their deans to entertain a discussion about risk management, then change will not occur rapidly. The decentralized culture of the university makes it difficult for central administration to holistically implement any initiative. Complicating the initiative further is a lack of cohesion among senior management and the resulting functional silos that complicate any effort for crossover communication, policies or training. This creates a tremendous amount of redundancy.

A key success factor Senior Administrator #2 noted is relationships with other people. In this person’s opinion, to introduce an institutional-wide risk management framework, cooperative relationships throughout the institution have to be present. In a decentralized environment, it can take a long time to develop trusting relationships.

Senior Administrator #3 was directly involved in assisting the university’s medical school in establishing a research compliance officer to deal with research related risks. The research area was identified as needing primary focus because of the dollars involved, the complexity of rules and regulations that are forever changing, human subject involvement and even decentralized decision making within the school. Given the university’s highly decentralized structure and the degree of remote decision making that goes on at the school level, he believes one approach to risk management is to address the highest areas of risk at the school level. The biggest challenge at the school level was convincing the faculty and researchers that this function would be value added to them. This was a key development according to Senior Administrator #3. If faculty do not support the function nor see value in it, any attempt to manage risks through a formal administrative function will be unsuccessful. Even the title of the function is
critical to its success. At the school level the oversight committee is focused on stewardship of resources not “risk management”, even though risk management is required of good stewards. Another challenge will be the amount of resources committed to any new administrative function. University A is extremely decentralized and decisions are made at the school level, often without consideration of the total impact the decisions will have on the university overall.

Senior Administrator #3 recognizes that the challenges of implementing a risk management model at the school level are compounded at the institutional level. First, obtaining support from the overall faculty governance structure would be difficult at best. Also, without the support and commitment of the university president initiatives of this type have limited chance of success.

He believes that a holistic approach to managing institutional-wide risks is very important. The steps taken at his institution and other peer institutions are the initial steps of a long journey. The question remains as to whether we can advance our initiatives within our respective cultures before a significant negative event, i.e. research misconduct, conflicts of interest, human subject negative outcome, and misuse of resources requires us to focus/divert time and resources on just one area versus a broader proactive holistic and systematic approach. A major concern for Senior Administrator #3 is that when key sponsors of risk management initiatives leave an institution, will the commitment be sustainable. Most of these initiatives are people driven at the operational level. Unless trustees can articulate the importance of risk management initiatives and insure those recruited to fill key leadership and management roles are committed to a
holistic risk management initiative, the focus on managing risk could fade with the departure of key sponsors.

Senior Administrator #4 was recruited to this university approximately three years ago. While he had worked “with” colleges and universities on matters related to federally funded research, this was his first opportunity to work “for” a university. His role is to develop a program for managing research risks at the school level. His initial objective was to educate the faculty, research staff and representatives from affiliated organizations of the “value proposition” that his office could provide to them. The majority of his time has been spent meeting and speaking to people individually, in small groups and some large forums. His goal is to focus on informing, educating and training faculty, researchers and staff on matters related to the conduct and administration of research resources.

Considerable strides have been made to position his office as a resource and not a policing function. His biggest challenges have been the culture barriers created by the highly decentralized nature of the institution, both at the institutional level and within the school. He recognizes that his institution’s approach to addressing institutional-wide risk is from the bottom up versus the top down. He shared that the university’s trustees acknowledged they were pleased to know someone at the school level was focused on research related risk.

Senior Administrator #4 concluded that an institutional-wide risk management framework for colleges and universities has applicability at the broadest level and within the individual components that comprise an institution. However, each institution’s culture will drive the model. At his institution, a “silo” approach is evolving. While the
institution has an overarching risk management committee that has made some progress, his school is focused on managing specific areas of risk related to the school. Overall institutional-wide risk management is not defined in his role and responsibilities.

University B

University B is a large research-intensive university ranked in the upper quartile of the top 50 national universities – doctoral as ranked by the *U.S. News and World Report’s 2003 Edition of America’s Best Colleges*. It has taken a very informal approach to focusing on institutional-wide risks. The approach is based on the university’s culture, a history of events that created financial, operational, compliance and reputational risks and actions taken in response to these past events.

I interviewed three senior level administrators. Two have a long-term employment history with the institution and worked through significant events that created financial, operational, compliance and reputational risks. The third administrator interviewed is relatively new to the university and his professional experience has been in the for-profit sector. The informal approach is believed to be optimal for the institution overall.

Senior Administrator #1 is directly responsible for advancing the university’s institutional-wide risk model. In 1995, he attempted to launch a formal risk assessment initiative. However, the administration at the time maintained a traditional focus of risk management and believed risk management discussions should deal with insurance or insurable risks, i.e. general liability, property and casualty. They believed management was responsible for looking after the business and related non-insurable risks. With a change in leadership at the most senior levels, i.e. president, provost, chief business
officer, an opportunity was presented to engage these new leaders in discussion about 
risks across the institution. The university’s external audit firm had also commented in 
their management letter that the university should consider conducting an institutional-
wide risk assessment. The new university president served on four or five corporate 
boards and the new chief business officer was recruited from the for-profit sector. They 
both grasped the importance of thinking about what could go wrong and how the 
institution is prepared to deal with negative events. They were supportive and agreed that 
Senior Administrator #1 should take a firm but informal and subtle approach to informing 
the university’s management about their responsibility to effectively manage risks.

Senior Administrator #1 identified several barriers to launching a discussion about 
institutional-wide risk. First, administrators may have a limited view of risk management 
as encompassing only insurance or insurance related matters. Secondly, administrators 
faced with numerous problems in their respective areas will find it difficult to focus on 
university wide initiatives. “Fire fighting” will always take priority, particularly if 
reputations are at risk. Finally, formality at this particular institution is 
counterproductive. Therefore, any initiative that lends itself to high visibility would not 
be well received by the deans and faculty. In addition, for any initiative of this nature to 
be successful it has to be handled by an existing insider, therefore the appointment or 
designation of someone as a Chief Risk Officer would not be well received or supported 
within the institution’s governance structure. The on-going challenge for Senior 
Administrator #1 is that while the president and chief academic officer speak to the need 
of managing and eliminating risks, the deans and faculty are not aware of the importance 
of this need. His initial goal is to encourage all management functions to begin thinking
about institutional-wide risks…posing the question of what could go wrong and how prepared are you to deal with it? His objective is to assess and identify from these conversations risks that have institutional wide ramifications.

Current risks facing this university according to Senior Administrator #1 are sustaining faculty satisfaction, enrollment management, financial viability of the university owned medical center, community relations and aging facilities. Of rising importance is the current economic downturn that has negatively impacted gifts. These issues have the foundation to create, if not escalate existing strategic, financial, operational, compliance and reputational risks across the university.

Senior Administrator #2 is relatively new to higher education and his career path has been in the for-profit sector. He believes the notion of institutional-wide risk management should be built-in to how the institution is managed. From his experience in the for-profit sector, risk management is an expectation of all management. It should occur without significant investment of resources. He made reference to the external auditor’s management letter report recommendation as the foundation for his supporting Senior Administrator #1’s proposal to initiate an informal institutional-wide discussion regarding risk management responsibilities. Another influential factor in gaining his support was the university trustee audit committee raising questions about what are the things we are not thinking about but should be? Trustee concerns are creating the need for internal assessments of potential risks and their probability. According to Senior Administrator #2, his thinking on how to approach trustee concerns is at the early conceptual stage.
Senior Administrator #2 expressed a narrow perspective of potential risks facing the institution. Faculty issues are not on his radar screen because he does not participate in the president’s cabinet meetings, only academic officers, i.e. chief academic officer, deans, other ranking academics, attend. As a result, he could not confirm Senior Administrator #1’s observation that the president and chief academic officer “get it” when it comes to understanding institutional-wide risks. His interactions with the president are focused on strictly business related matters of a non-academic nature.

Senior Administrator #3 was employed by University B during a federal research related serious event that created financial, compliance, legal and reputational risks. This event and resulting responses demonstrate how such events can create a situation in which all resources become directed at the issue and little else is given priority. The event sensitized the trustees and top-level administrators to the need for more effective risk management across the institution. The approach has been a team effort between legal, finance, audit and compliance functions at University B. Even with University B’s history, risks are not viewed as all bad. According to Senior Administrator #3, there are “good” risks, i.e. supporting leading edge research, technology transfer ventures, investing in world renown faculty to attract others or with the intent of growing research funding, adding debt to the balance sheet to address new or aging facilities needs. A continuing question at University B is always “are we taking enough risks”.

Senior Administrator #3 identified several factors that have advanced University B’s risk sensitivity. First, a serious event related to government-sponsored research drew national attention to the institution in a less than positive way. Trustees are adamant that University B should not have a reoccurrence. Second, the teamwork previously
mentioned is progressing management’s thinking about risks. Third, an infrastructure has been put in place for faculty, staff and students to report their concerns of potential wrong doing or existing risks that are not being addressed. Fourth, the current university president, with the continuing support of the trustees, has set a tone at the top for conducting university business the right way. Finally, events at peer institutions are constantly monitored and questions are raised about the potential for any observed event happening at University B. If it is determined that similar risks exist at University B, senior administrators are to take steps in assessing and minimizing these risks.

Barriers to successfully managing institutional risks were identified as the inability to control people’s actions, impacting faculty mindsets and the limited management capability of academic administrators. According to Senior Administrator #3, these barriers are not unique to University B. They exist on all college and university campuses to some degree.

**Perspectives from an Experienced Higher Education Senior Executive and Current Consultant to the Industry**

Senior Executive #1 has thirty years of experience as a senior administrative officer at three research-intensive universities ranked in the upper quartile of the top 50 national universities – doctoral and at two in the second tier as ranked by the *U.S. News and World Report’s 2003 Edition of America’s Best Colleges*. He continues to serve all segments, i.e. independent, public, research intensive, liberal arts, of the higher education industry through a successful consulting practice.

According to Senior Executive #1, the institutional-wide risk framework presented in Chapter 1 makes good business sense. He noted that it represents a common sense approach that seems to be difficult for higher education institutions to embrace due
to their focus on issues perceived as more critical. Senior Executive #1 offered what he believes to be core requirements of any implementation strategy. First, the dialogue regarding risks has to be conducted across the institution, similar to what occurred at Penn. Second, once an assessment of potential/existing risks has been completed, managing risk has to be aligned with institutional-wide objectives. For example, if the chief academic officer is focused on raising faculty salaries to maintain market place competitiveness, then the chief financial officer needs to be in agreement and supportive versus working an agenda, i.e. deferred maintenance or new administrative support systems, that would compete for the same resources. Third, metrics, while the most difficult aspect of an institutional-wide risk management framework, will need to be developed to measure progress towards managing and minimizing identified risks. Finally, accountability (sole or joint) has to be placed for each area of risk. While the president, chief academic officer, deans, department chairs and chief financial officer will need to work collectively to design strategies to address risk, one or more of these senior leaders will need to be identified to take the lead and ultimately be responsible for risk mitigation strategies. Using the faculty salary example, Senior Executive #1 stated that a joint effort would be needed by department chairs, deans and the chief academic officer to inform the president and the chief business officer of the financial resources needed to maintain competitiveness among peer institutions.

According to Senior Executive #1 senior administrators are often myopic as to how their day-to-day issues and operations impact areas outside their responsibility. For an institutional-wide risk management framework to become ingrained in the leadership and management fabric of the institution more than just senior management must be
engaged. Deans, department chairs, academic and non-academic administrators, and the faculty governance structure must be indoctrinated to the framework and accompanying common language, otherwise you risk this effort becoming piecemeal and the probability of failure becomes high.

A number of barriers to a university-wide risk management initiative came to mind when Senior Executive #1 reflected on his previous positions in higher education. First, operational problems and day-to-day fires require constant attention and focus. Secondly, participation and being present at forums across the university had more to do with political correctness than goal attainment. In addition, he observed that many of his peers “talked bravado at peer meetings but walked softly on their campuses. Very few tackled institutional-wide issues comprehensively. They focus on matters primarily within their area of responsibility.”

Senior Executive #1 believes the key success factor for incorporating an institutional-wide risk management framework and common language within the industry is for three or four top tier university presidents to recognize its value and agree to push this framework as a model for sustaining success. Conceptually on any campus it will take the right leadership mindset and a skilled staff to implement. Not all institutions have a champion who can effectively engage senior administrators and trustees in this discussion. At smaller institutions it would be difficult unless the president made managing risks an agenda item.

What would truly bring focus to industry wide adoption of an institutional-wide risk management framework, according to Senior Executive #1, would be an institution that demonstrated a “strategic competitive advantage” over non-adopters. Real life
examples would be needed to demonstrate the competitive advantage. To make the institutional-wide risk management framework more effective each of the risk areas (strategic, financial, operational, compliance and reputational) should be defined with real life examples.

**Perspectives Outside the Industry**

During the 2000/2001 academic year I embarked on a progressive multi-year initiative to assess existing enterprise-wide risk management models that only a few but growing number of companies in the for-profit sector had undertaken. The notion of developing an enterprise-wide risk management capability had been suggested for evaluation by the Trustees, President and Executive Vice President at the University of Pennsylvania. As I referenced earlier in this chapter, this initiative is significantly aligned with my responsibilities at Penn.

With the assistance of representatives from the global accounting firm of PricewaterhouseCoopers, three companies within their client base were identified as having mature or close to mature enterprise-wide risk management programs, including a Chief Risk Officer function. They were viewed as “best-in-class” at the time of our interviews. The intent of studying existing models in the corporate for-profit sector was to determine what components were transferable to a higher education environment.

The three companies interviewed included a global investment bank, a leading medical and research institute and a large U.S. bank. The two banks had risk management functions that focused historically on managing credit risk and the responsibility was placed in one organizational unit. Their enterprise-wide risk management models expanded the responsibility for risk management throughout the
organization and expanded the types of risks monitored beyond the historical focus on credit risks to include compliance, operational and reputational risks. For example, operational risks assessment includes determining the effectiveness of business continuity plans, if a crisis event (fire, robbery) were to occur. The medical and research institute’s program was implemented after a sentinel event (patient death resulting from medical error) negatively impacted its reputation and trustees/directors demanded extensive institutional-wide risk management systems be put in place. Even with millions of dollars invested in best-in-class sophisticated systems and root cause analysis methods, risks will never be reduced to zero according to the Chief Operating Officer, whose responsibilities encompass serving as Chief Risk Officer. One of his continuing challenges is managing key stakeholder expectations that risks can be totally eliminated. He realizes and finds it a constant challenge to get the key stakeholders to understand that risks will never be reduced to zero.

While each company had adopted a risk management program to fit its specific culture there were common themes intertwined in all three models.

These themes include the following:

- The objectives of an institutional-wide risk management program must be clearly communicated in terms of value to the functional areas and departments.
- A formalized training and communication program is critical to create risk management awareness and competencies.
• A common risk language (risk categories and definitions) will need to be developed and customized to the organization and possibly to the individual operating units that comprise it.

• A risk management function that focuses holistically on the organization will most likely be separate from other functional units such as audit/controls monitoring.

• An enterprise-wide risk management initiative should begin by identifying a baseline “inventory” of risks.

• Enterprise-wide risk management involves a significant change management challenge…one should not underestimate the time and effort required to launch and implement this initiative.

The following critical success factors for implementing an enterprise-wide risk management framework were consistent among the three companies:

• Board and senior management commitment and oversight is a must.

• Skilled people with knowledge of the organization should be appointed to this initiative with clear definitions provided for their roles.

• A systematic enterprise-wide perspective of risk management should be developed that focuses on a tailored framework for managing all risks rather than focusing on solving only current risk issues.

• Establish and identify a process owner/leader charged with program implementation and management, such as a senior level executive to function as the Chief Risk Officer. This role may be combined with
existing responsibilities that are aligned with risk management, i.e. in one company the chief operating officer assumed the \textit{de facto} role of chief risk officer because of the various operating entities that reported into him and his responsibility and authority to effect change management.

• Focus on establishing accountability throughout the organization with personnel at every level.

The interviews conducted with the senior executives at these three companies provided insight into “how to structure and implement” and “critical success factors” for an enterprise-wide risk management framework. They provided perspectives from two companies (banking) that were accustomed to managing risk programmatically and whose enterprise-wide model was an expansion of past practices. The third organization (research and medical institute) provided an example of how a negative event resulted in a set of unplanned priorities and related unplanned investment of resources. The institute’s risk management systems for patient safety are recognized as the benchmark for all healthcare delivery organizations.

\textbf{Conclusion}

A qualitative study places the researcher in the midst of informants to gather data through inquiry in a natural setting. The data provides the basis to build a holistic picture with words to understand a particular problem. The problem facing higher education institutions is how to safeguard their core mission of teaching, research and service as powerful market forces continue to change the business of higher education. This qualitative study investigated through case analysis the feasibility and transferability of lessons learned and models used in the for-profit sector to support strategic leadership
and management of constantly changing business environments. Interviews I conducted with leaders and managers within higher education identified certain themes and conclusions that were consistent with the perspectives gained from interviews with companies outside the higher education industry. The findings, implications and conclusions from the research study are discussed in Chapter 5.
CHAPTER 5: FINDINGS, CONCLUSIONS, AND IMPLICATIONS

Introduction

Having been charged with the responsibility to develop and build capacity around a comprehensive, institutional-wide risk management program at the University of Pennsylvania, my research study was focused on investigating cases at universities similar to Penn and in other segments of the higher education industry. In addition, this study includes data gathered on enterprise-wide risk management models evolving in the for-profit sector and a not-for-profit healthcare entity.

My data collection efforts were designed to include interviews with higher education leaders, including trustees, presidents, provosts, deans, administrative vice presidents, general counsels and other select members of senior management. During the interviews, I explored whether the need for an institutional-wide risk management framework was recognized, including potential functional designs, measurements of success and barriers to implementation. Data from the for-profit corporate sector and the healthcare organization were collected through interviews with senior executives responsible for managing their organizations’ evolving enterprise-wide risk management models.

The design of a “one size fits all model” for higher education institutions was not the intention of this research. The focus of this research study was to assess the feasibility and transferability of a general framework to guide the holistic consideration of risk as a critical component of college and university strategic planning initiatives and operations.
Conclusion

Managing risks holistically across the institution will protect and advance each institution’s core mission of teaching, research and service. While adoption of an institutional-wide risk management framework has been incremental across higher education institutions, the results of this qualitative research study indicate that institutional-wide risk management is an important and timely topic among higher education leaders.

My research indicates that the for-profit corporate sector’s enterprise-wide risk management framework is transferable to higher education institutions. This sector developed a common language for defining business risks within the following framework:\(^5\):

- Strategic Risks – goals of the organization
- Operational Risks – processes that achieve goals
- Financial Risks – safeguarding assets
- Compliance Risks – laws and regulations
- Reputational Risks – public image

While “they don’t apply” is a consistent response to anyone recommending for-profit sector practices to higher education leaders for consideration, several early adopters of an institutional-wide risk management approach in higher education provide evidence that an enterprise-wide risk management framework for colleges and universities is feasible.

\(^5\) More in depth discussion and analysis of the five components of risks that comprise the framework are presented in Chapter 1, pp 11-12.
The approaches taken by early adopters vary based on institutional culture and existing organizational structures. However, an institutional-wide risk management framework and common language modeled after the for-profit sector’s enterprise-wide risk management framework is providing a consistent foundation for these varied approaches. The principal determinant of consistency is that internal audit professionals are driving the concept in response to the interest of their boards, presidents or other senior level administrators. In some instances, universities, particularly those with trustees and presidents who serve on boards in the for-profit corporate sector, have readily accepted an institutional-wide risk management framework.

Whether the conceptual thinking is initiated from the top down or the bottom up, institutions will need someone within the organization to champion implementation of institutional-wide risk management. The person or persons identified to lead implementation will need knowledge of the industry and the institution, the ability to leverage established relationships and existing forums for communication and training, authoritative reporting high in the institutional structure, and the capacity to assume additional responsibilities with minimal investment of new resources.

The early adopters of institutional-wide risk management in higher education are developing a process to identify potential risks and how prepared the institution is to deal with them. What is obvious is that a “one size fits all” model does not exist. College and university leaders will have to decide to either proactively adopt institutional-wide risk management into their strategic leadership and management or risk a reactive and more costly approach to responding and addressing significant negative events. An approach
leaving the institution vulnerable to reactionary leadership and management falls short of
addressing risk holistically throughout the institution.

It is important that early adopters of institutional-wide risk management continue
to refine their institutional-wide risk management frameworks. In addition, a national
forum on institutional-wide risk management models would provide presidents, provosts,
vice presidents and other administrators with a foundation for developing a common
language and effective risk management frameworks for their institutions.

The literature review and the case analyses indicate that the terrorists’ attacks on
the United States and numerous corporate business failures in 2002 have been key drivers
to advancing risk management to the forefront of management’s agenda. While each
institution will have to assess how to specifically approach implementation strategies and
tactics, data from this research study provides a framework and common language that
will inform and provide a foundation to launch an institutional-wide risk management
effort. This research study should assist in facilitating further dialogue regarding a
holistic approach to risk assessment in higher education institutions.

Where to Start

The business environment of higher education is constantly changing. The most
effective starting point for an institutional-wide risk management framework is
recognition by governing bodies, presidents and senior leadership that an effective risk
management program is necessary to safeguard the institution through these changes. In
1996, the Association of Governing Boards (AGB) raised questions and concerns
regarding the industry’s preparedness to meet the challenges of the future. The AGB
stated “higher education today confronts challenges that are more numerous, more
serious and more rapidly developing than at any time in recent memory.” They went further by noting specific areas: “resource constraints, reduction in research funding, technology revolution, challenges of access and diversity and increased public expectations”. The AGB recognized that the “traditions of management and governance stood in the way of timely and effective responses” to these “new and growing challenges.”

Advancing forward approximately four years to 2000, Molly Corbett Broad, President of the University of North Carolina, identified the challenges for higher education that accompanied the turn of the century. She wrote that, “the turn of millennium…. Is arguably the most fascinating and challenging time in the history of American higher education. Powerful forces of change are impacting every sector of our society and our economy.” Broad identified the major forces of change to be: “population demographics, knowledge economy, information technology, knowledge explosion and globalization.” Joining Broad in 2000 with their assessments on the changing landscape of higher education, James E. Morley, President of the National Association of College and University Business Officers and Benjamin F. Quillian of California State University wrote, “the environment in which colleges and universities operate has changed dramatically within the past ten years. Greater management and leadership skills than ever before are now required of higher education administrators.”

Advancing forward to 2001 not only has higher education continued to change, so has the world. The terrorists’ attacks on New York City and Washington D.C. on September 11, 2001 changed the world. Over a year later, the uncertainties stemming from global events prompt senior leadership at colleges and universities around the
country to address the question, are we better prepared today than over a year ago?

Managing risks at Penn and college and university campuses around the country took on a whole new dimension beginning September 11, 2001.

In 2002, the U.S. economy and Wall Street were shaken by the largest corporate failures and bankruptcies in America’s history. The resulting down turn in the economy has placed the endowments and financial stability of many higher education institutions at risk. Shareholders that were negatively impacted by corporate failures are filing legal actions to reclaim contributions made by numerous senior executives to build facilities and endow professorships. Investors are alleging these contributions were made with corporate not personal funds. These current risks have moved to the forefront of trustee and management attention.6

Once institutional leaders give recognition to and embrace the realities of a constantly changing business environment as articulated by industry leadership and evidenced by world events, the leadership at the top of the institution can begin to effectively formulate an institutional-wide risk management framework. The research study confirmed that institutional-wide risk management is timely and valuable. The most effective models evolving in the industry today are those sponsored by the trustees and the president. In the Introduction to Chapter 4, I provided a quote obtained from President #1. Its significance merits restating here, “today, thinking among presidents has broadened past the risk of terrorists’ attacks to include all risks across the institution. Institutional-wide risk management is a timely topic not just for now but for the future.”

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6 I do not mean to equate the risk management issues discussed in this dissertation with either the events of September 11 or the overall downturn in the national and global economies of the early 2000’s. But the evidence is fairly convincing that those developments gave a greater legitimacy and prominence to the overall theme of risk management. A number of higher education leaders used these circumstances to take up or further their concerns with managing a variety of institutional risks.
Trustees and presidents create a shared vision for the institutions they govern and lead. The vision is focused on securing and advancing the core mission of teaching, research and service. When effectively communicated the vision is shared by the senior leadership team serving the president. Likewise, if institutional-wide risk management is to be adopted into the leadership and management processes at colleges and universities, it is imperative that trustees and presidents set a “risk conscious” tone at the top.

At institutions, where trustees and presidents set a passive tone at the top regarding risk management, an uphill climb is created for senior administrators attempting to implement an institutional-wide focus on risk management. While progress can be made towards implementation, it will be slow and piecemeal approaches will evolve. Examples cited in the research study note a narrow focus on specific high-risk areas only, such as environmental risks at Trustee #1’s institution. Another difficulty arises from silo approaches, where individual schools hire their own risk champion to concentrate on risks in the school and not across the institution. Limited scope approaches are not ideal to providing a holistic consideration of institutional-wide risks across the institution. While entity based risk champions may be necessitated by an institution’s decentralized structure, these positions should be directly linked and accountable to those developing a holistic institutional-wide focus. In 1999, at a forum sponsored by NACUBO and PricewaterhouseCoopers, industry leaders reached a general consensus that, “risk is any issue that impacts an organization’s ability to meet its objectives and that risks fall typically into five categories: strategic risks; financial risks; operational risks; compliance risks and reputational risks”. An effective institutional-wide risk management framework is one that addresses each of these areas.
As presidents communicate their commitment to an institutional-wide risk management framework, it is imperative that they enlist the support of the faculty. The framework’s connectedness to institutional goals and priorities, as well as, how this initiative safeguards and supports the academic mission must be demonstrated. According to a distinguished senior faculty member at the University of Pennsylvania’s Graduation School of Education, “One should not assume from faculty non-responsiveness that they do not understand administrative matters. Faculty members are intelligent, and they do get it. They just don’t readily pay attention or embrace every new initiative the administration puts forth, unless it impacts them directly.”

**Identifying an Institutional Risk Management Champion**

Recognizing the constancy of change in higher education and setting a “risk conscious” tone at the top to incorporate institutional-wide risk management into the leadership and management structure of an institution are critical success factors of significant importance. Once established, the trustees and president must identify someone to champion the institutional risk management initiative. The person or persons championing the initiative must develop a risk management framework for implementation across the institution. In some for-profit sectors the position and role, Chief Risk Officer, has been created. The position reports high in the organization and is charged with defining the organization’s risk appetite, marshalling the required risk management resources, defining how to measure and monitor risks, designing systems and processes to collect data to assess risks and creating reporting mechanisms to a Risk Management Committee, the CEO and the Board. The Chief Risk Officer in many cases serves as a resource to the individual business units and assists each in identifying major
risks and developing plans to either reject, transfer or monitor the risks. Based on the research study, the position title, Chief Risk Officer, would not be widely accepted in the higher education industry. It would be perceived as additional administrative overhead. The most successful approach would be placing the responsibilities in an existing organizational unit. The organizational unit and designated champion must be able to leverage existing resources and relationships to advance discussions across the institution. The designated champion must have knowledge of the industry and the institution and report high in the organizational chain of command, preferably to the President and the Board. Leveraging existing relationships will be a critical success factor to advance the discussion and implementation of an institutional-wide risk management framework. The “Responsibilities for Risk Management” model developed by Steinberg and Bromilow’s study provides an excellent resource to inform decisions regarding roles and responsibilities throughout the institution.

University trustees and presidents could look to their internal audit functions as potential champions of an institutional-wide risk management initiative. The institutions selected for this study and positioned in the upper quartile of the top 50 national universities-doctoral as ranked by the U.S. News and World Report’s 2003 Edition of America’s Best Colleges have taken that step. The early adopters’ have designated their chief internal audit executives to lead implementation of an institutional-wide risk management initiative. However, there is great variability in the knowledge, skills and expertise within internal audit functions within higher education institutions. For example, Trustee #1 noted that the internal audit function at his institution is small and the skill sets are focused on very traditional financial auditing. Trustee #1 did not view
the internal audit function as having the necessary skills or positioned within the
organization to champion an institutional-wide risk management initiative. However,
President #2, who leads a similar size and nationally ranked institution comparable to the
one represented by Trustee #1, views the internal audit function as the key area within the
administrative services functions to assess the effectiveness of ongoing risk assessment
activities against the senior management teams’ performance plans.

The culture and organizational structure of each institution, as well as the
knowledge, skills and expertise within the leadership team should determine who is best
suited to champion an institutional-wide risk management initiative. Models are evolving
within the industry that can guide discussions regarding who and where within the
institution the responsibility should be placed. College and university internal audit
functions that have adopted risk based audit planning and resource allocation models
should not be overlooked. While one person or functional unit can champion the effort,
success will depend on institutional-wide support from senior management.

A Framework

Recognizing change is constant, setting a “risk conscious” tone at the top and
identifying a risk management champion are critical success factors for implementation
of an institutional-wide risk management framework. These three factors together create
what I characterize as the “institutional will” that fosters institutional-wide risk
management as a critical component of college and university strategic planning
initiatives and operations. These three factors represent the cornerstones for constructing
and successfully implementing an institutional-wide risk management framework and
common risk language.
A framework for institutional-wide risk management should begin with the institution’s strategic plan. A commitment to managing risks should be stated as a key institutional objective that supports the achievement of other institutional goals and objectives. For example, the University of Pennsylvania’s strategic plan, *Agenda For Excellence*, developed in 1996 clearly stated a goal to develop mechanisms for effectively managing risks. The strategic plan currently under development builds on the accomplishments of the past seven years and includes a goal to continue building a stronger risk management capability by leveraging past accomplishments. Presidents #1 and #2 in the research study both incorporated goals in their institutions’ strategic plans to develop capacity to effectively manage risks across the institution.

If strategic planning and a strategic plan are not key components used to lead and manage a college or university, then a public statement of the importance and support for institutional-wide risk management from the president and senior management will be critical. At University B, the president and chief academic officer provide support through public dialogue with deans and faculty about the importance of effectively managing risks. The approach to implementing an institutional-wide risk management framework at University B is informal by design, since University B’s strategic plans do not articulate specific administrative support functions’ goals.

An institutional-wide risk management initiative means cutting across the institution functionally and through organizational and cultural barriers. The risk champion should create a risk management committee comprised of representatives from throughout the institution. Representatives should be recruited from the faculty governance structure, central administration, school and/or departmental representatives,
and principal investigators from the research faculty. The committee should focus on constructing a risk assessment methodology for identifying risk across the institution and serve as a support structure for the risk champion. Committee representatives should work with the risk champion to remove institutional barriers and sponsor institutional-wide forums to identify and discuss risks facing the institution. The committee should continuously focus on identifying risks, both internal and external, that can potentially impact the university in negative ways. The Risk Management Committee should provide reports to the president and the president’s cabinet routinely. These reports should be utilized to develop communications provided periodically to the trustees and the university community. University A utilizes a Risk Management Committee as described above. The Committee was formed by senior management out of concern for an increasingly aggressive external environment, and the lack of a formal process to assess how University A was prepared to deal with negative situations arising at peer institutions. The challenge remaining for University A is getting the attention of the governing body and president to establish a “risk conscious” tone at the top.

The institutional-wide risk assessment methodology should be designed in accordance with the organizational structure of the institution. For example, President #1 in the research study was prompted to engage her entire cabinet in a discussion around the topic of what keeps them awake at night in regards to their area of responsibility. Each member of the cabinet submitted informal reports and the president engaged the cabinet in discussions on the top risk priorities. What has yet to be established at President #1’s institution is a tracking plan and follow-up assessment to determine actions taken or planned to address the highest risk priorities.
At the University of Pennsylvania, I use an institutional-wide risk based planning model annually to conduct a risk assessment of each entity that comprises the institution. The risk assessment is a collaborative process that includes the President, external auditors, deans, the Provost’s Office and operational and senior management. A risk rating of high, medium or low is developed for eight risk criteria. The criteria used are:

- Personnel
- Size and complexity of operations
- Changing business environment/Pressure to meet business objectives
- Trustee and management concerns
- Past audit results and frequency
- Compliance and regulatory oversight
- Reputational impact
- Information technology infrastructure

The criteria are rated based on objective and subjective measures. For example, measures underlying the personnel criteria include turnover, training, and skills. An overall risk rating of high, moderate or low is developed for each entity from the summary ratings for the eight criteria. The key to the success of this model is obtaining input from all levels of management. This planning tool provides the opportunity to sit at least annually with each dean and discuss the risks facing their respective schools. For instance, the discussion around personnel quickly turns to faculty recruitment and retention issues which evolve into discussions regarding strategic, financial, operational and reputational risks.
Previously in this chapter, I discussed the definition of the term “risk” that was developed at a forum sponsored by NACUBO and PricewaterhouseCoopers. The definition provides that risks fall into typically five categories: strategic risk; financial risk; operational risk; compliance risk and reputational risk. These categories provide a common language for discussing risk during the strategic planning process or for any day-to-day decision facing the institution’s leadership team. For institutions that follow a formal strategic planning process, a discussion of risks accompanying each strategic initiative should occur during the planning phase. For example, if growing enrollment is a key initiative, questions should be focused on assessing the risk of falling short or exceeding targeted goals and how those risks can be mitigated. Growing enrollment as a strategy has implications for financial risks and operational risks. The upside to this strategic initiative is that the institution can increase revenue streams and resulting margins that can be directed to fund new programs and services. On the downside, if new faculty members are hired based on planned new programs and anticipated enrollment increases, the impact of any shortfall is readily obvious…excess faculty and unfunded costs. On the operational side, if enrollment increases above targets, then space problems from classrooms to housing may occur. This may initiate compliance risks if codes are violated and reputational risks if students and parents become unhappy with the circumstances and communicate their negative experiences to prospective students and their parents.

A strategic discussion quickly cascades through one or more of the five categories of risks. These categories provide the common language for more detailed consideration
of underlying risks. For example, legal risk consideration would be a subcomponent of any one of the five typical risk categories.

Implementing an institutional-wide risk management framework requires an effective communication and awareness-training program. Communication and training is important and time consuming. The risk champion and Risk Management Committee should develop a communication and training program in accordance with the institution’s organizational structure. Working with each member of the senior leadership team, the risk champion can design programs and approaches that over time reach the entire university community. While this may seem an overwhelming task, communication and awareness training are keys to success. Communication and training can be accomplished by designing a structured program around existing forums, training programs and institutional-wide communication media. In communications with deans, department chairs and faculty who serve in the governance structure at Penn, discussions are focused on the five categories of risk discussed previously and dialogue centers around the school’s strategic initiatives, goals and priorities. At University B, the culture supports localized “fireside discussions” on specific risk related topics, i.e. compliance risk in a research environment. However, reaching every member of the university over time should be a goal. Reaching new faculty and staff can occur through participation in new faculty and staff orientations. The bigger challenge is the time and commitment it will take to reach existing faculty and staff. Knowledge of the institution and leveraging relationships with each entity’s leadership team will be the key to successfully launching and implementing a comprehensive communication and awareness-training program.
Barriers to Success

Institutional-wide risk management currently does not attract a wide audience within the industry, particularly at the presidential and senior management level where significant impact could be gained. As Trustee #1 noted, “risk management is not sexy and university presidents will not rush to make institutional-wide risk management their legacy”. According to Senior Administrator #1 at University A, who initiated an institutional-wide risk management initiative at her institution, her peers among the 30 top research universities in the country are not thinking about risk management as a top priority. The majority of her peers is traditional in their thinking and as a result focuses time and resources on campus priorities that are more visible. She noted that only a few give the topic of risk management any real thought. Senior Executive #1 who spent thirty plus years as a university administrator believes the notion of institutional-wide risk management makes good business sense, however he shared that senior administrators are often myopic as to how their day-to-day operations impact the broader university. In addition, senior administrators face the challenge of allocating time to university wide initiatives while dealing with daily operational problems and putting out day-to-day fires.

Cultural and organizational structures present barriers to institutional wide adoption and support. Senior Administrator #2 at University B does not attend the president’s cabinet meetings. His interactions with the president are focused strictly on business related matters of a non-academic nature. He could not confirm a member of his management team’s representation that the president and chief academic officer “get it” when it comes to understanding institutional-wide risks. At University A, the majority of trustees and the president have many other initiatives that over-shadow the importance of
risk management. Senior Executive #1 observed that, “until three-four of the top tier university presidents recognize the value of institutional-wide risk management and agree to push the framework as a model for sustaining success, adoption will be incremental”.

The lack of proven metrics that capture the impact of institutional-wide risk management is an added barrier to success. When institutions can demonstrate a strategic competitive advantage over non-adopters, the industry will step up and take notice.

Adoption of an institutional-wide risk management framework requires someone in the organization to champion the initiative. According to the research not all institutions have an existing champion who can effectively engage trustees and senior administrators in a discussion about business risks. At smaller institutions, it would be even more difficult to engage the conversation, unless the president made managing risks a strategic agenda item.

**Early Adopters Realize Benefits**

Early adopters in higher education have realized numerous benefits and anticipate even greater gains. A cultural transformation is occurring at some institutions without a “big bang” launch of a new administrative initiative or significant resource commitments. This transformation is visible in the evolving common language around risk. It has evolved and reveals itself in dialogues among faculty, academic administrators, central administrators and senior leaders. Initiatives to address identified risk are strategically in alignment with desired institutional goals versus a reactive response. A process is evolving within these institutions to anticipate worst-case scenarios, conduct environmental scans of industry issues and design steps to avoid or address them.
Anticipated gains include minimizing surprises and decreasing the costs of crisis management, as the institutional-wide risk management framework evolves into an early warning system for potential high-risk events. Additionally, while risk will never be reduced to zero the potential impact (financial, operational, reputational) of risks associated with strategic goals and priorities will be addressed.

**Future Studies**

My research study identified several areas that merit consideration for further study. First, enterprise-wide risk management models in the for-profit sector are in their infant stages. Enron’s model was heralded by Deloach’s study as a corporate best practice, but yet failed. There are lessons to be learned from Enron’s failure, the fate of Enron’s Chief Risk Officer and other corporate executives involved. These lessons, i.e. the detrimental aspects of weak governance structures and an aggressive risk taking tone-at-the-top set by senior executives, would inform those considering adapting enterprise-wide risk management models into their organizations, even higher education institutions. Second, the governance structures within higher education and even within similar institutions of higher education vary. The impact of governance structures, particularly faculty governance, on the ability to effectively implement institutional-wide risk management frameworks is worthy of investigation. Third, the institutional-wide risk management frameworks being evolved by early adopters in higher education are in their infant stages also. As noted by Senior Administrator #3 at University A, the first steps in a long journey have been made. Is the sustainability of these early models solely dependent on the personalities of the existing leadership, i.e. trustees, president, senior management, identified risk champions? Will the journey continue if key sponsors
and/or implementers change or leave the institution? Will existing organizational structures be modified and policies implemented to create a sense of permanency? It will be important to track these early adopters and determine if the industry follows. Fourth, at this stage of implementation metrics do not exist to measure the “return on investment” from implementing an institutional-wide risk management framework. There are a number of colleges and universities that in recent years suffered through significant negative events that brought global media coverage, i.e. the bonfire catastrophe at Texas A&M, and other events related to academic fraud, as well as, improper research billings to the federal government that resulted in significant financial settlements with the U. S. Justice Department. Assessing the strategic, financial, operational, compliance and reputational impact on these institutions’ business and operational practices may provide potential metrics for measuring the cost of ineffectively considering risks. Metrics that capture the return on investments that represents measurable risk avoidance will be valuable. Lastly, September 11, 2001 changed the world and significantly impacted the leadership and management of higher education institutions. The Department of Homeland Security, Federal Bureau of Investigation and Central Intelligence Agency in recent weeks publicly identified colleges and universities as “soft targets” (easy to access and inflict terror) for terrorists’ acts during a state of a code “orange” risk alert, one notch below the highest risk alert, code red. As college and university leaders give further heightened consideration to the risk of terrorists’ attacks on their campuses, will action be taken to evolve an institutional-wide risk management framework to holistically manage risks?
Institutional-wide risk management has proven to be and will continue as a timely topic. My research study is just the initial steps in a journey that merits future travelers.
Appendix A
Managing Institutional Risk – A Framework
Interview Guide for Senior Executives

Strategy – Recognizing the need and value of an Enterprise Wide Risk Management Function

1. Is your risk management model intended/structured to be enterprise wide? If so, what form has it taken within the organization? If not, how broad is the coverage that your risk management model provides?

2. What were the drivers (internal/external) for developing a Risk Management Model/EWRM function?

3. Is the Risk Management Model/EWRM function supported at the Board level? If so, what degree of input did the Board provide?

4. What is the stated mission/charge/role of the Risk Management Model/EWRM function? How is it aligned with the overall strategies/goals of the organization?

5. How has the function been marketed within the company? What has been the response?

6. Is the Risk Management Model/EWRM function a result of thought leadership around “management of organizational risk”? If so, how has the organization defined “risk” and what strategies are in place to identify, manage and leverage risks?

7. Who developed the Risk Management Model/EWRM function and what resources/references were utilized in the strategic design?

Functional Design

8. Describe the Risk Management Model/EWRM function reporting structure and how the function reports within the organization, both functional and administrative reporting lines.

9. Describe the professional knowledge, skills and expertise of the Risk Management Model/EWRM function staff – Chief Risk Officer (CRO) and other staff reporting to the CRO.

10. Is organizational knowledge critical to the success of the CRO, so much so, that recruiting should be focused within the organization?

11. What sources were used to determine the structure, skill sets, and experience of the CRO? Can this be shared with us

12. What are the roles and responsibilities of the CRO? What resources were used to develop the position’s role and responsibilities?

13. Have performance goals and performance measures been established for the EWRM function and the CRO?

14. Provide an overview of a day/week/month/year in the life of a CRO.

15. Is technology utilized to assess organizational risk? If so, please describe.

16. Describe the work product of the EWRM function.
Measurements of Success
17. What are the recognizable benefits of an effective Risk Management Model/EWRM function…near term and expected longer term?
18. How is the value-added to the organization by the function assessed?

Barriers to Success
19. Describe the barriers to success of the function.
20. How have the barriers been overcome?
21. What were the most difficult aspects of creating and establishing the Risk Management Model/EWRM function?
Interview Guide for Higher Education Leaders
(Note: In advance of each interview the participant is provided a copy of the dissertation proposal abstract and Chapter 1. Providing information prior to the interview allows the interview topic to be framed and results in efficient use of the interviewees’ time.)

**Strategy – Recognizing the need and value of an Enterprise Wide Risk Management Framework**

1. Prior to receiving the materials for this interview have you given any consideration to the topic of risks that face the institution?
2. Does your institution have a structured methodology for discussing risks? If so, please describe the methodology/approach.
3. Are you familiar with enterprise-wide risk management models evolving in the for-profit corporate sector? If so, what was the source of your information?
4. Are you familiar with the role and responsibilities of a Chief Risk Officer position?

**Functional Design**

5. Do you have a designated champion to facilitate risk management discussions or assessments?
6. Would the Chief Risk Officer position be embraced at your institution/within the industry?
7. Who should be responsible for thinking about risk holistically? How are they held accountable? How are they measured in terms of success?
8. What should the reporting structure for an institutional-wide risk management program be?
9. Would resources be available to invest in a new administrative initiative to implement a focus on institutional wide risks?
10. If you have a program, how is it designed, i.e. reporting structure, processes, communication, and training?

**Critical Success Factors**

11. What would you identify as the most critical success factors for launching an institutional-wide risk management initiative?
12. What metrics would you consider for measuring success?

**Barriers to Success**

13. Describe the barriers to success of an institutional wide risk management initiative.
14. How would/have barriers been overcome?
15. What would be considered the most difficult aspects of creating and maintaining an institutional wide risk management model?
Bibliography


