

Enterprise Risk Management: Best Practices for Boards, Presidents, and Chancellors

In private industry, boards and chief executives routinely consider risk in strategic planning, but a new survey by the Association of Governing Boards and United Educators reveals that higher education is lagging behind in this important fiduciary responsibility. (A detailed summary of the survey results is available at www.agb.org/research and at www.ue.org.) Key survey findings include:

- Sixty percent of respondents said their institutions do not use comprehensive, strategic risk assessment to identify major risks to mission success.
- Fewer than half of the respondents said they “mostly agree” with the statement, “Board members and senior administrators actively engage in discussions regarding institutional risks.”
- Five percent of respondents said their institutions have exemplary practices for management of major risks to mission success.

College presidents* and boards should collaborate in developing and overseeing a system for evaluating campus risks at the strategic level. Specific ways in which the board and president can support risk assessment are recommended in the following Best Practices and Action Steps.

Best Practices

1. Define risk broadly. Traditionally, institutions focused on financial risks covered by insurance. Current thinking defines “risk” as any impediment to accomplishing institutional goals. In a 2000 report, the National Association of College and Business Officers (NACUBO) discussed the “new language of risk” and identified five types of risk: strategic, financial, operational, compliance, and reputational.

2. Recognize both the opportunities and downsides of risk. Many colleges focus only on the downsides of risk. In addition, they should weigh risks against potential rewards. All successful organizations take risks, and the most promising opportunities often involve heightened risk.

3. Develop a culture of evaluating and identifying risk at multiple levels. Presidents and board members rarely see the first warnings of risk. Institutions need to identify and assess risks regularly at multiple levels so that the most critical ones filter up to top decision-makers.

4. Look at the total cost of risk. Risk is not just about dollars and cents. Institutions must consider all the consequences of risk. For example, in a lawsuit over denial of tenure, there are litigation costs, but there are also non-monetary costs such as lost productivity, distraction from mission, and negative publicity.

5. Boards and presidents should collaborate. They need to engage in candid discussions at the strategic level. By working together, presidents and boards can fulfill their shared responsibility for ensuring the success of the mission and stability of the institution.

* The term “president” includes both presidents and chancellors of higher education institutions.

Action Steps

- 1. Develop a disciplined process to consider risk in strategic discussions.** Most institutions monitor risk on an ad-hoc basis. Institutions need a disciplined process to ensure that mission-critical risks are elevated from the operational level to strategic discussions of institutional goals. For policy decisions, boards need to ensure that comprehensive risk assessment has occurred.
- 2. Designate an owner of the risk identification process.** Risk identification is the first step of risk evaluation. To ensure the process moves forward, institutions should designate an administrator to oversee risk identification by every department throughout the institution. The right person will vary by institution and could be the president, chief financial officer, risk manager, chief auditor, or general counsel.
- 3. Require all top administrators to prioritize risk.** Once identified, risks should be prioritized based on probability of occurrence and severity of impact.
- 4. Sift through the prioritized risks to decide which ones warrant attention at the highest level.** Boards and presidents need to monitor those risks that could interfere with strategic goals of the institution and establish tolerances for each risk. They should limit the number of risks monitored so that top risks receive sufficient discussion.
- 5. Require annual written reports on each high-priority risk being monitored.** Annual written reports ensure that administrators stay focused. In addition, they allow boards and presidents to monitor progress in managing key risks.
- 6. Re-assess priority risks at the board level at least once a year.** An institution's environment is constantly changing. At least once a year, the board and president need to determine which risks are emerging, and which ones can come off the priority list.
- 7. Look for blind spots.** At least once a year, boards and presidents need to ask, what downside risks are we leaving out, and what opportunities are we missing? Imagine the unimaginable—a flood that closes your campus for a year, a student killing more than 30 classmates, a 20 percent drop in the stock market in one week. All of these “unimaginable” events have occurred.
- 8. Move risk identification deeper into the institution each year.** Many serious risks are first spotted by employees without fancy titles. Who at an institution would first know that campus buildings are developing mold problems, a donor database has security flaws, or a student is becoming dangerous to others?
- 9. Keep repeating the process.** Risk management is not a one-time endeavor. Boards and presidents need a dynamic approach to protect the institution from mission-critical risks and take advantage of emerging opportunities. Most institutions focus on downside risks in the beginning and then move to opportunities as their risk-management processes become more advanced.