Managing Risk in Higher Education

PETER TUFANO UNIVERSITY OF OXFORD SAÏD BUSINESS SCHOOL

The need to manage risk is widely acknowledged throughout the corporate world, and a well-developed body of knowledge is available to guide efforts to do so. Implementation of principles into practice, however, is mixed, often due not just to a lack of the right skills, but also because of a lack of commitment from senior management. Peter Tufano, Peter Moores Dean and Professor of Finance at the University of Oxford’s Said Business School and formerly a professor at Harvard Business School, emphasizes that risk management should be considered an essential C-suite—that is, CEO and board-level—activity, and be practiced by nonprofits as well as corporations. Tufano reviews an HBS case study of the World Food Programme (WFP), a division of the UN that feeds about 100 million people at risk of starvation that undertook an Enterprise Risk Management exercise beginning in 2003. He draws lessons from the WFP’s experience for colleges and universities to consider as they work to strategically manage their own risks.

The literature on risk management is well developed. One of the better known risk management frameworks is the rather complicated COSO cube, a three-dimensional matrix that illustrates the relationships among the objectives of an organization and the components of Enterprise Risk Management (ERM) that was created by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO was formed by a group of related professional organizations in the mid-1980s to address fraudulent financial reporting. Since then, COSO also has focused on internal controls and ERM. The cube was introduced in a paper published by COSO in 2004, which defined ERM as dealing with risks and opportunities affecting value creation or preservation, as follows:

Enterprise risk management is a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

While the COSO framework is exhaustive, top business leaders are not inclined to work through a detailed step-by-step risk management process, but rather to take a top-level approach based on straightforward, fundamental questions. Framed in the context of university leaders, these questions would include the following:

1. What is our mission?
2. What is our strategy to achieve it?
3. What risks might derail us from achieving our mission?
4. How is our institution set up to manage or live with these risks?
5. Where are we being too timid regarding risks?

**World Food Programme**

The World Food Programme (WFP) is a division of the UN charged with addressing starvation around the world. When the HBS case about WFP was published in 2008, there were more than 800 million severely undernourished people in the world. (Today, that number is estimated at over 1 billion.) In 2006, WFP reached nearly 88 million people through a variety of programs, from conflict-related and natural disasters relief to school feeding.

WFP was founded in the early 1960s as a means to distribute food surpluses to help feed the world’s hungry. While there were agricultural surpluses, there were not enough to address global hunger entirely and so food often was allocated according to foreign policy considerations. Although it has evolved in many ways since that time, WFP’s founding tenets remain. Its primary stated objectives are to promote world food security, to use food aid to support economic and social development, and to meet nutritional deficiency in the wake of natural and man-made disasters around the globe. WFP is the world’s largest food aid agency and serves as the logistical hub for global humanitarian responses. Its 10,000 employees take pride in its image as “the world’s 9-1-1.”

WFP’s headquarters in Rome oversees seven regional offices and 77 country offices, where more than 90% of its staff is deployed. Through a combination of its own monitoring and requests from poor-country governments, WFP determines where it would be best to intervene and how.

To pay for its vast operations and workforce, WFP relies entirely on a voluntary base of donations. Governments are the agency’s biggest donor; in 2006, 87 countries supported WFP operations. Based on annual WFP appeals, governments donate funds and/or food to either specific operations (earmarked) or to a general fund (multilateral). WFP can use up to 7% of its budget to fund indirect support of field operations and administrative costs. Of the funds available in 2006, more than 90% were earmarked and less than 10% were “multilateral” and therefore could be spent at WFP’s discretion—much like the split between earmarked and flexible endowments in universities. This lack of freedom constrains WFP’s ability to operate where it sees the greatest need unless it can raise additional funds from donor countries. Further, because the level of crises, appeals and donations vary year-to-year, WFP’s annual operating budget also fluctuates annually. In a good year, when there are fewer people starving, WFP needs to lay people off and then hire again when disaster strikes.

**Managing Risks at the World Food Programme**

The culture of WFP had always been intensely risk-aware; anticipating risks and devising tactics for coping with them was part of the DNA of the organization. For example, one Rome-based WFP group continuously carries out elaborate statistical analyses and mapping to assess populations’ exposure to various risks, such as weather, and their ability to cope with these risks. Early warning systems monitored rainfall; WFP analysts could partially predict droughts that would lead to a food crisis four or five months before it would hit. Similarly, field organizations prided themselves on their ability to anticipate disasters, and to react quickly upon learning of a crisis.

For example, in 2007, 48 hours before hurricane Felix was forecast to strike the Honduras and Nicaragua, WFP’s regional office in Panama had already contracted helicopters for the relief operations; 24 hours before the strike, the early response team was ready to go.

Despite this culture, prior to 2003, WFP had not established a systematic, structured way of thinking about risk at the strategic level. At that point, the Executive Board decided that a dedicated ERM activity was needed to provide stakeholders with assurance of good governance. All WFP managers at headquarters and in country offices were encouraged to think about the risks threatening the achievement of their unit objectives, and to escalate those that were particularly worrisome or out of their control. In 2005, the Executive Board established a formal ERM policy.

Briefly, here’s what happened:

Two individuals within WFP were explicitly dedicated to implementing the ERM program through training managers, urging compliance, and synthesizing the risk analyses from the various units into the organization’s Strategic Plan. Country directors were encouraged, but not necessarily obliged, to complete a comprehensive risk assessment as part of their annual work plans.

The resulting October 2007 WFP Risk Profile identified 14 risks, of which four were deemed to be highly important in terms of both their impact and likelihood. These four risks concerned (1) potentially insufficient surge capacity, should the number and severity of natural and man-made disasters increase; (2) potential reductions in WFP’s ability to raise funds, should donor and recipient governments’ perceptions of WFP’s relevance in the humanitarian assistance space change unfavorably; (3) competition from other players, as high costs of procurement could drive donors to use non-WFP channels of delivering aid; and (4) failure to demonstrate adequate corporate governance and accountability to donors.

As background, it is important to note that the WFP Executive Director, Josette Sheeran, took over in spring 2007,
toward the end of the initial ERM implementation. As the organization’s leader, but also de facto chief fundraiser, she travels the world meeting with government officials and working to raise the visibility of the problem of world hunger. In June 2007, Sheeran gave a highly publicized speech urging the international community to take action, as three key factors—climate change, rising food prices, and population growth—were threatening to unleash a “perfect storm” on the world’s hungry. She emphasized rising commodity prices for food and fuel, and noted that the overall cost of WFP reaching a hungry person had gone up by 50% in the last five years. Later that year, The Economist ran a cover story, “The End of Cheap Food,” featuring Sheeran and her message.

Despite the international attention to the issue spurred in part by their executive director, rising commodity prices did not make the top four on the WFP’s October 2007 list of risks, which instead largely focused on the organization’s reputation and funding. Rising commodity prices came in at number eight.

In January 2008, massive protests over high food prices erupted in Mexico City, Indonesia and Egypt.

By February 2008, the ERM team drew up a new risk profile that identified the top risk as “changes in the external environment,” including the impact on poor households of higher food and fuel prices.

In short, while the stated goals of WFP’s ERM process were admirable, the implementation was understaffed and slow. The bottom-up process was voluntary, adversely affecting participation on the part of its country directors, and somehow missed the mark on identifying mission-related risks. Even so, the WFP’s approach to risk management is more advanced than that of many higher education institutions.

**Risk Management in Higher Education**

The National Association of College and University Business Officers (NACUBO) released a report on managing risk in higher education in 2003 that encouraged higher education leaders to implement and advance effective risk management programs. The report outlined five levels by which to characterize how an institution approaches risk (see sidebar), and asked institutions to rate themselves and consider how they might advance the pace of progress to achieve top-level risk management.

Five years later, United Educators (UE) and the Association of Governing Boards (AGB) conducted a survey and released a report, “The State of Enterprise Risk Management at Colleges and Universities Today.” The results at first appear positive: Approximately 85% of respondents mostly or somewhat agreed that “the institution’s appetite and tolerance for risk are understood and are a part of the institution’s decision-making culture,” and that “the institution’s risk tolerance guides strategic and operational decisions.” Further, 80% of respondents mostly or somewhat agreed that “as a philosophical matter, oversight of institutional risk management is a priority at my institution.”

Indeed, in a classic case of the Lake Wobegon effect, just 11% of respondents rated their “institution’s approach to and management of major risks to mission success” as below average or poor.

Yet in reality, more than 50% of respondents indicated that “board members and senior administrators regularly evaluate major risks identified by the strategic risk assessment” on an as-needed basis—as opposed to, for example, every year (9%), every other year (24%), and every other year (3%).

An “as-needed” approach to risk management is alarming to say the least, implying that institutions carefully considered the relevant issues only after, for example, the Virginia Tech shootings, or upon realizing they had no liquidity in their investments when the financial crisis hit. A well functioning risk management program anticipates potential problems and opportunities and the likely managerial response, and does not merely react to realized problems.

Regardless of how you evaluate your institution’s current approach to risk management, I encourage you to begin with the fundamental questions I laid out earlier. That is, don’t...
get caught up in COSO, or Sarbanes-Oxley, or focus just on financial risk management. Instead, go to the heart of the institution and ask, “What is our mission, what is our strategy, and what could keep us from getting there?”

From there, one simple tool you can use to get a systematic view of your exposures is a “heat map,” as shown in Figure 1. This commonly used organizing device plots risks along two dimensions: the likelihood of the risk and the severity of the risk were it to occur. A rainstorm that reduces attendance at regularly scheduled events, for example, is routine and not a mission-derailing problem; a hurricane is far less regular, but if it were to occur it would have considerably greater consequences. The upper right quadrant in the heat map includes risks that are particularly worrisome—high likelihood and high severity. However, you must also consider your plans regarding low likelihood but high severity risks. For example, institutions use insurance to deal with extreme weather events like hurricanes.

Heat maps tend to focus on avoiding or mitigating risks, but leaders must also consider whether and where you’re being too timid with regard to risk. The missions of many organizations are expansive and bold. Success is rarely easy—nor is it risk free. This last question—Are we being too timid?—is often overlooked, yet risk management is not only about reducing and eliminating risks; it’s also about assessing whether an organization should take on more risk and selecting which risks to take to advance its mission.

In higher education, an institution committed to advancing learning could be too timid by being slow to experiment with learning models; that is, too slow to try new pedagogical methods, online learning, or other applications of technology to learning. A major research university might find that its long-standing tenure and promotion practices reward incremental or “safe” research using traditional methods. Or its financial model could present opportunities that aren’t being explored, perhaps related to its sticker price and financial aid levels, or programmatic changes that could be made to enhance net tuition. While “brand protection” is not usually touted as a mission of universities, a university could be overly protective of its brand and therefore less likely to enter into beneficial partnerships, perhaps with corporations, or with other institutions either at home or abroad. Capital investment is another area where too much caution could present a risk to the institution. Clearly, risk management should be approached from the perspective of not taking on enough risk as well as from the more traditional view of minimizing risks.

In a couple of meetings I’ve conducted with individual institutions, the “too timid” discussion was especially illuminating. In contrast to the sober and relatively administrative tone of discussions about heat maps, pondering timidity engaged more senior decision makers to be more self-critical, to ponder the aims of their organizations, and to get animated. Rather than produce a list of “don’ts,” the discussion began to articulate a discussion of “must do” action items. The “too timid” question also confronts the natural conservatism of organizations that often are bastions of tradition.

**Conclusion**

Risk is not limited to large corporations or banks. Non-profits, government agencies, and higher education organizations all face a host of risks. Yet, risk management practices in the nonprofit realm, including higher education, appear to be significantly less developed than in much of the corporate world. It may be that universities’ shared governance systems and distributed decision-making make it more difficult to implement institution-wide risk management activities. But with economic models challenged by rising costs, fluctuating endowment values, and uncertainty about future government funding of research, universities face increasing risks. Long-term trends in the demographics of college-aged students, in conjunction with competition in the form of provision of greater student amenities, add another layer of risks. Further, global competition in certain research areas, and for students, as well as non-traditional entrants in the for-profit education sector, add even more perils.

Positioning risk management as avoidance of loss will ultimately weaken colleges and universities. Given that, the importance of commitment on the part of the president and senior administration cannot be overemphasized. To be successful, risk management activities need to be considered...
essential and publicly supported by top-level, C-suite leaders at the institution. Further, a list of risks dominated by finance and administrative issues will have missed the mark. Rather, thinking about risk management should be mission-centered, strategic, and broad enough to capture those issues that are of fundamental importance to the ongoing success and mission of the institution.

**Endnotes**


**PETER TUFANO** is the Peter Moores Dean and Professor of Finance at the University of Oxford’s Said Business School. Before joining Said, Tufano was the Sylvan C. Coleman Professor of Financial Management at the Harvard Business School and served as the Senior Associate Dean for Planning and University Affairs there. Tufano founded Doorways to Dreams (D2D), a non-profit R&D lab that translates consumer finance ideas into practice, including two recent changes in federal tax policy: splitting tax refunds to support low-income savings, and enabling refund recipients to direct some of their refunds to purchase inflation-indexed savings bonds. Tufano’s work has been published in the *Journal of Finance*, the *Journal of Financial Economics*, *Harvard Business Review*, and various additional management and academic journals. Tufano can be reached at peter.tufano@sbs.ox.ac.uk.