The Two-Headed Monster of Risk: What Higher Ed Traditional Risk Managers and Enterprise Risk Managers Can learn From Each Other

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Like a well-prepared meal at a fine restaurant, ERM is best taken one course at a time, not mixed up on a single, giant plate.

—Joanna Makomaski and Beaumont Vance,

Authors of *Enterprise Risk Management for Dummies*

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What Higher Ed Traditional Risk Managers and Enterprise Risk Managers Can Learn from Each Other

| *Andrew Goldblatt and Hans Gude, University of California, Berkeley*

Introduction

The risk manager at the University of California, Berkeley, is always busy. How could it be otherwise on a campus with a brilliant but sometimes mercurial faculty, 36,000 activist students, a global research footprint, a dispersed fleet of over 500 vehicles, and a deferred maintenance backlog in the hundreds of millions of dollars?

So when the campus committed itself to an enterprise risk management program, the risk manager's first question was, "How far along with cloning is the genetics department? Because you're going to need two of me to get this done."

His second question was, "Oh, and by the way, what exactly is enterprise risk management?"

That was senior leadership's cue to bring in a director of enterprise risk management.

Although the addition of an enterprise risk manager was a necessary step, confusion over turf could have led the traditional risk manager and enterprise risk manager to rage across the campus like Godzilla and Mothra, destroying everything in their path in a struggle for dominance. Instead, they learned that traditional and enterprise risk management are distinct yet overlapping endeavors that can make each other more effective.

Background

By traditional risk management we mean a more operational approach to risk, focused mainly on insurable risks.

By enterprise risk management we mean a more strategic approach to risk that focuses on risks that could jeopardize the campus's ability to achieve its objectives.

Typically, the traditional risk manager's job is to reduce the likelihood of insurable losses and then to handle claims and lawsuits when loss prevention efforts

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fail. The principal objective of the traditional risk manager is to get the campus through the day unscathed – or, in the alternative, minimally scathed. Although the traditional risk manager's loss prevention efforts are a form of enterprise risk management, their scope is usually limited to the operational arena: contract review, event planning, employee training, etc.

Typically, the enterprise risk manager's job is to help the organization's leadership manage (accept, avoid, share, or mitigate) risks that could erode the campus's ability to achieve strategic objectives and also to help leadership incorporate a risk perspective into decisions regarding new opportunities. The principal objective of the enterprise risk manager is to help the campus stay on the course it laid out in its strategic plan, which for Berkeley means maintaining its outstanding academic ranking.

On some campuses, the traditional risk manager and enterprise risk manager are the same person. Those who combine the positions are the unsung heroes of higher education risk management as they either have or must learn two distinct backgrounds and skill sets (*see table on page 18*).

At smaller schools, it makes budgetary sense to combine the two positions, even if the employee doesn't have both backgrounds and skill sets. But at larger, more complex schools, gaps in background and skills become more glaring, exposing the employee's weaknesses and perhaps increasing the school's risk as a result. Thus the tendency at most schools to assign the traditional and enterprise risk functions to different people and sometimes to different offices.[1]

At the University of California, Berkeley, the traditional risk manager and enterprise risk manager both belong to the Office of Ethics, Risk, and Compliance

Services, which reports to the Chancellor's Office and also includes the Title IX, whistleblower, privacy, public records, and ADA compliance functions.

Berkeley's traditional risk manager and enterprise risk manager started their positions in late 2011 after holding different risk-related jobs on campus. Initially they each did their own thing. Then they were put in the same office. They soon discovered they both had a liberal arts background, which led to freewheeling chats about art and philosophy. Eventually those chats turned into serious discussions about how best to manage risk in higher education. It helped that neither was content with the conventional approach to his field and was open to fresh ideas.

Benefits of Collaboration for the Traditional Risk Manager

The most important lesson the traditional risk manager learned from the enterprise risk manager is that it's crucial not to get lost in the weeds – that a traditional risk manager needs to evaluate risks not in terms of the attention they demand but in terms of their potential impact on the organization. Yes, it matters that professor X's subaward agreement has the best possible insurance and indemnification language and that professor X is insisting the subaward agreement be signed today, but is that as important as making sure the power supply to professor X's lab is uninterrupted or preparing professor X's lab for an inevitable natural disaster? In a job where time and resources are limited, having an enterprise risk manager's sense of priorities can focus the traditional risk manager on the most crucial risks, i.e. those most likely to threaten the campus's overall mission.

Along those same lines, the enterprise risk manager reinforced to the traditional risk manager that the name of the game is loss prevention, and that to the degree possible, the weight of claims management should be shifted to office colleagues and a third party administrator so the traditional risk manager has more opportunity to stop bad things before they happen.

In terms of fresh ideas, the traditional risk manager had long preached that everyone on campus is a risk manager but had limited his audience to staff and faculty. Students were seen as other. That's the conventional wisdom among traditional risk managers, who keep a wary eye on students as potentially adverse parties in claims and lawsuits. But education is a university's core mission. Seeing students as other can inhibit the mission.

	"Traditional" Risk Management	"Enterprise" Risk Management
Risk Focus:	Insurable risks	Strategic risks
Objective:	Protect the university from incidents that may result in large financial loss	Protect the university from events that may threaten its ability to achieve its strategic objectives
Helpful Background / skills:	• Insurance • Legal • Crisis management • Broad knowledge of business operations • Comfort in gray areas • Ability to negotiate • Ability to foster change • Ability to communicate to broad audience	• Accounting / finance • Professional services consulting, including organizational change and process improvement • Sales • Networking • Comfort in gray areas • Patience to accept slow, incremental change • Ability to communicate to leadership
Helpful Knowledge:	• Insurance policy details • Historical losses to the campus • Loss prevention techniques	• ERM frameworks • Risk theory • Quantitative business methods

Figure 1: Ideal background and skill sets for traditional and enterprise risk managers.

By enlisting students as risk managers, the traditional risk manager can surmount longstanding barriers to reducing student-related operational risks and contribute to the campus's co-curricular educational efforts by giving students their first lessons in risk awareness, loss prevention, and insurance.

The traditional risk manager now heads Berkeley's Compliance and Enterprise Risk Subcommittee on Student Risk. He is working alongside students in the effort to reduce alcohol-related medical transports, injuries, and deaths – a role he would not have imagined for himself three years ago. And when he asks senior management for resources to support the committee's efforts, he doesn't just make the traditional risk argument that students' families are increasingly disregarding well-established law regarding in loco parentis and holding the campus legally responsible for students' poor personal choices. He also makes an enterprise risk argument: that to continue attracting the highest-caliber students, the campus needs to address public perceptions that it condones a wanton, potentially lethal social environment.

Benefits of Collaboration for the Enterprise Risk Manager

By sharing an office with the campus's traditional risk manager, the enterprise risk manager has been exposed to the continual stream of telephone calls between the traditional risk manager and campus stakeholders seeking immediate, specific, actionable guidance about a multitude of risks—risks that either just happened, were about to happen, or would likely happen soon if not dealt with immediately.

Exposure to those conversations has helped the enterprise risk manager appreciate that traditional risk management has an exigency that a stand-alone, isolated enterprise risk manager might not otherwise perceive and at best understand only conceptually. This is the difference between a captain on the battlefield and a colonel at headquarters only remotely connected to the front lines.

As an example, although the enterprise risk manager may not participate in a meeting with, say, the chair of the Physics Department concerning power outages affecting the department's ability to conduct research (as the traditional risk manager would), learning about that specific, tangible, emerging risk from the traditional risk manager helped the enterprise risk manager understand the importance of reliable power sources to the campus's ability to achieve its research mission.

UC Berkeley is a large, complex living organism composed of thousands of moving parts. All the risks inherent in the organization, whether financial, operational, or reputational, live in the movement of those parts. Proximity to the traditional risk manager taught the enterprise risk manager that to be successful, enterprise risk management (ERM) has to make a difference on the ground—it has to understand and incorporate all those moving parts.

Another way to say this is that ERM must be pragmatic. The word is used deliberately here for two reasons. First, because it means to solve problems sensibly and realistically using an approach based on practical rather than theoretical considerations. Second, because it resonates with the campus's enterprise risk manager, a philosophy major who embraces the slogan of the 19th century "pragmatic" philosophers: "If it doesn't make a difference here (in our daily lives), then it doesn't make a difference there (in your intangible, unseen metaphysical world where angels are said to dance on the heads of pins)." If the enterprise risk manager can't help the campus make better decisions about where to apply scarce risk mitigation resources, then it doesn't make a difference what the campus's risk philosophy and risk appetite statements say.

Practical versus theoretical is easier said than done, because that is exactly the greatest challenge to implementing ERM. How does an enterprise risk manager find a way to descend from the general, theoretical principles articulated in the COSO guidance and become grounded in the day-to-day operations of a campus?

The perspective gained by exposure to a day in the life (actually, many days in the life) of the traditional risk manager has helped steer the enterprise risk manager toward a novel approach to implementing ERM at Berkeley that bridges the chasm between theory and reality, achieving a solution that can make a difference on the ground.

The enterprise risk manager has elected to base the ERM process in the activities (those "moving parts") Berkeley carries out every day across the campus in support of its mission of teaching, research, and public service. Working within the campus ERM governance structure, he identified the principal activities the campus

carries out, determined how essential those activities are to achieving the mission, identified the risks inherent in the activities, and assessed how well the risks are being mitigated. Having completed this process, the enterprise risk manager was in a position to make specific, tangible recommendations to leadership about where to focus resources. Delivering energy to the campus emerged as a top strategic risk.

Another way collaborating with the traditional risk manager helped the enterprise risk manager become clearer about how to implement ERM at Berkeley was in determining risk mitigation priorities. The enterprise risk manager came to Berkeley from the private sector, which invented ERM principally for financial risks. In the private sector, most decisions and priorities can be ranked and compared using the overriding metric of dollars. Even though he recognized that dollars are not the principal metric in the public sector, the enterprise risk manager initially had difficulty understanding why some campus risks, such as student alcohol abuse, appeared to be receiving attention and resources out of proportion to their potential to adversely affect the organization's ability to achieve its strategic objectives, especially when weighed against the risk of an unreliable power supply for the Physics Department, which endangers the research mission. The logic of his profession impelled him to recommend spending those funds to improve campus utilities first, and to assign a lower priority (possibly much lower) to funding efforts to reduce student binge drinking.

Until, that is, the enterprise risk manager recognized that attracting the highest-caliber students and doing everything reasonably possible to assure good outcomes for them are part of the campus's bottom line – and that parents' confidence in the campus rests in good part on the ability to assure the public that the campus cares about its students and effectively addresses the risks they face. Popular perceptions that the campus is dangerous could not only discourage high-caliber students from applying to Berkeley, but could further imperil public funding, a major enterprise risk and threat to the mission.

Conclusion

At UC Berkeley, the traditional risk manager and enterprise risk manager have learned that, far from rivals, they are allies in the effort to control campus risk. Exposure to enterprise risk management makes the traditional risk manager more strategically savvy. Exposure to traditional risk management makes the enterprise risk manager more operationally savvy. By borrowing freely from each other and coordinating efforts, they increase their individual effectiveness and maximize the likelihood of reducing their campus's overall risk.

About the Authors

Andy Goldblatt has been the risk manager at the University of California, Berkeley, since September 2011. He was assistant risk manager from 2007 to 2011 and litigation coordinator from 2003 to 2007. His areas of specialty include litigation, administrative policy, travel, and student risk. Prior to entering the risk arena, he earned a meager income as a freelance writer.

Hans Gude joined the staff of the University of California, Berkeley, in 2008, as manager, controls and accountability in the Office of the Controller. In 2011 he transitioned to the newly created position of director, enterprise risk services, in the Office of Ethics, Risk, and Compliance Services, responsible for implementing ERM on campus. Before joining UC, Berkeley, Hans was a director in the consulting arm of a Big Four public accounting firm, responsible for delivering Sarbanes–Oxley and other risk and compliance services to clients in the United States and Latin America. He holds professional certifications as a Certified Internal Auditor (CIA) and Associate in Risk Management, ERM designation (ARM-E). Hans holds a BA degree in philosophy and an MBA degree in finance.

Endnotes

1 ‾According to "The State of Enterprise Risk Management at Colleges and Universities Today," published by the Association of Governing Boards and United Educators in 2009, only 7.1 percent of chief risk officers have primary responsibility for enterprise risk management. "http://agb.org/sites/agb.org/files/u3/AGBUE_FINAL.pdf," p. 23, retrieved on December 1, 2014.

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