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NERCHE BRIEF

New England Resource Center for Higher Education
September 2002

The following Brief from the New England Resource Center for Higher Education (NERCHE) is a distillation of the work by members of NERCHE's think tanks and projects from a wide range of institutions. NERCHE Briefs emphasize policy implications and action agendas from the point of view of the people who tackle the most compelling issues in higher education in their daily work lives. With support from the Ford Foundation, NERCHE disseminates these pieces to a targeted audience of higher education leaders and media contacts. The Briefs are designed to add critical information and essential voices to the development of higher education policies and the improvement of practice at colleges and universities.

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Managing Risk

- The development office accepts a gift of a house from a prestigious donor.
- The faculty has developed and approved a new core curriculum.
- The institution recently constructed a new campus center.

While these circumstances sound no alarms, all involve elements of risk. The welcome gift of the house, later discovered to be contaminated with mold, will involve a costly clean up. A revised curriculum cannot guarantee that the changes will yield the expected results. The construction of a new building has significant implications for maintenance of the physical plant. In a recent meeting NERCHE's Chief Financial Officers Think Tank discussed the changed landscape of risk management in higher education.

A year ago campuses were catapulted by a national disaster into an uncharted territory of high-stakes risk. Questions about uncertainty reached an urgent pitch as campuses reassessed their vulnerabilities in this harsh new light. Are buildings insured for terrorist attacks? How do we protect our students abroad? What are the implications for science labs that work with hazardous materials? What are our admissions procedures for international students?

Campuses moved quickly to consider new policies to address these changed circumstances. Yet the ominous prospects of a terrorist attack, while real, are far more remote than the risks inherent in the familiar rhythms of campus decisions.

Had September 11 not occurred, most campuses would still be facing increases in liability. Recent trends point to heightened vulnerability, as demonstrated by the proliferation of law suits, on the part of individual campus divisions and members. Chief Student Affairs officers are perhaps among those most familiar with the growing use of litigation, as each disciplinary decision exposes them to possible legal repercussions. Department chairs approach contentious tenure cases with apprehension. The odds are now much greater that a case will be decided in court.

Apart from these high-profile situations, risk is built into daily campus operations. Supporting the status quo is becoming more expensive. Networks on campus, for example, require continual upgrading, necessitating a reformulation of the infrastructure issue as risk management. Assessing the extent to which an institution can increase costs means considering a number of implications: If tuition is raised, it is important to ascertain the risk of becoming dependent on fewer fully paying students, who are courted by a number of competing campuses. At the same time, from a risk management standpoint, cutting costs everywhere is not a good strategy if the institution is to remain competitive. Risk management involves stepping out of traditional modes of thinking, no matter how clear the benefits are perceived to be.

Most often risk management is thought of as the bailiwick of the finance office, which is charged with assessing risk and procuring insurance policies to protect against negative outcomes. While the fiscal consequences for failing to manage risk fall to the finance office, responsibility for risk management should be institution wide.

The goal of inclusive discussion about risk should not be to obstruct innovation with potential hazards or to paralyze decision-making. Risk management initiatives should be productive but not stifling. The key is to evaluate risks long before they present themselves as problems.

NERCHE’s Chief Financial Officers suggest the following in the new climate of risk.

<u>Recommendations</u>:

- Bring key people—president, vice president for academic affairs, vice president for student affairs, financial services, faculty, etc.—to the table to discuss risks. Insights from individuals representing a variety of areas across the institution bring added value to planning for risk.

- Develop a framework for discussing and assessing risks that will help build risk management into planning.

- Build risk assessment into the adoption of academic innovations. Implications are institution-wide for academic initiatives and trends, such as providing internships and service-learning opportunities.

- Use all available resources. Many CFOs don't have the time to comb through the details of multiple insurance policies. The loss control people at the insurance companies can look at the institution's exposures and point out areas of concern. If possible, hire a risk manager to monitor the insurance policy details, which change fairly regularly. Institutions can pool resources to hire a shared risk manager. Some colleges and universities are forming consortia through which they procure specific insurance policies, such as for workers compensation.

- Make certain that the Board of Trustees has clear information about the need for potential expenditures. In a typical year, for example, 1800 residence halls catch fire, involving one death and 69 injuries. Presented with this information, the Board may understand the urgency of equipping every residence hall with sprinkler systems, even though the cost seems daunting.

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NERCHE
Graduate College of Education
University of Massachusetts Boston
100 Morrissey Blvd.
Boston, MA 02125-3393
617-287-7740
email: nerche@umb.edu

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