ERM and Reputational Risk: More Talk Than Action?

Janice M. Abraham
President & CEO
United Educators

Paul L. Walker, Ph.D., CPA
James J. Schiro/Zurich
Chair in Enterprise Risk
Management
Exec. Director, Center for
Excellence in ERM
St. John's University

As pundits weigh the value of a four-year degree, colleges and universities are competing with one another for a shrinking pool of student candidates. Amidst an environment of increasing focus on student recruitment and retention, the financial burdens grow. How can the college ensure long-term viability? Will families continue to pay top dollar for a university seal on a diploma? Long-term success relies on a number of factors, but one of the most pressing is the institution's reputation.

In an era in which social media can shatter or strengthen a reputation in a matter of minutes, institutions must manage reputational risk as part of their overall enterprise risk management (ERM) strategy. And while most agree with this premise, and adoption of ERM is growing, institutions fail to consistently address reputational risk. Consider these responses to a recent United Educators (UE) survey of board members and administrative leaders, administered by the Association of Governing Boards of Colleges and Universities (AGB):

- **87%** believe the board has organizational oversight of reputational risk
- **83%** believe that reputational risk is more important than three years ago
- **78%** believe that the institution has identified drivers of reputational risk
- **67%** have a reputational risk plan and response in place.

Despite all this talk, institutions aren't taking consistent action. In fact:

- ***Only 26%** of survey respondents believe that their institution's response to reputational risk is consistently proactive*
- ***The number of reputational risk events occurring is large***
- ***The impact of some reputational risk events can be devastating, and***
- ***54%** of institutions state that they do not have the ability to withstand a major reputational risk event.*

What can be done? More follow through, including appropriate resource levels, is essential to ensuring that an institution can withstand a reputational threat. This report details the outcomes of a survey conducted by UE in 2017 to assess the application of ERM practices at colleges and universities. It goes into depth on reputational risk factors, since reputation is of increasing concern. And it provides best practices for taking action to ensure that risks to the reputation of your institution are effectively identified, prioritized, and mitigated.

The State of ERM in Higher Education

Although higher education institutions have been slow to adopt ERM policies and practices, their governing boards, bringing their corporate perspective and expertise, have been successful in instilling ERM principles. More colleges and universities are embracing ERM as a tool to prepare for and respond to risks and opportunities. In 2013, only a third of respondents in a survey conducted by AGB and UE reported having a formal process for risk assessment. In UE's 2017 survey, 70% reported having a formal ERM process and structure in place. Of those 92% believe the process is effective. Clearly, institutions think progress is being made.

More colleges and universities are embracing ERM as a tool to prepare for and respond to risks and opportunities.

Board Engagement in ERM

Boards also play an important role in oversight of enterprise-level risks, and the survey data report an increased focused on ERM. Notable survey findings include:

- **ERM discussions are extending to board committees.** A notable shift is occurring related to where board ERM discussions are taking place. In 2017, 69% of respondents reported discussing institutional risk at the full board, a modest increase from 62% in 2013 , and a substantial climb from 47% reported in the 2008 AGB-UE survey.
- The **audit committee** continues to carry the strongest role in risk discussions, with 73% discussing risk.
- **Other committees** that include risk discussions in their meeting agendas include finance (50%), executive (43%), investment (31%), and student affairs (29%).
- Unlike corporate ERM initiatives, **risk management committees** have not gained ground in higher education; only 14% of respondents reported having board risk committees.
- **Risk is discussed on a regular basis.** In 2017, 24% of survey respondents reported discussing ERM-level risks at **every** board meeting and 28% reported such discussions at least once a year. Only 36% address risk "as needed," a decline from 44% and 51% in the AGB-UE 2013 and 2008 surveys, respectively. Progress is being made to include discussion of risk in the regular course of the board's business.

One area of lesser agreement was board engagement. When asked about the level of board engagement in discussions of ERM, respondents were not as optimistic, with only 61% stating that the board was appropriately engaged in ERM, 6% overly engaged, and 31% under engaged. Still, overall, some of the foundational board leadership elements related to managing reputational risk appear to be in place.

ERM Leadership and Responsibility

We know from past reputational risk mistakes played out in the media that the role of university leadership is critical and highly scrutinized. Leadership responsibility is an important element and the survey reveals that various roles across senior leadership were identified as holding primary responsibility for leading ERM within the institution.

- **40%** of respondents identified the chief finance/administrative officer as having the responsibility
- **19%** shared the leadership role with the CFO and one additional senior leader
- **16%** reported the president having primary responsibility
- **12%** relied on a chief risk officer to lead ERM

Accepting and assigning responsibility for ERM and repuation risk is an important task that university leaders should take seriously. In addition to the board accepting responsibility, delegating significant risks to lower management levels could lead to problems.

Reputations at Risk

Potential damage to an institution's reputation was identified in AGB-UE surveys and through author discussions as an important strategic risk for institutions to monitor as part of their overall risk portfolio. At some institutions, reputation earns a separate and distinct listing on the institution's register of top risks monitored by the board. At other institutions, a damaged reputation results from the occurrence of another top risk. Whether identified separately in a risk register or viewed as the result of events that tarnish or enhance it, higher education leadership consistently confirm that reputation is the most valuable asset of an institution and must be aggressively and proactively managed.

Managing reputational risk has advantages and can lead to higher performance. Failure to manage reputational risk can have devastating consequences such as decreased state funding, decreased contributions, significant drops in the number and types of new student applications, disenfranchised alumni, accreditation problems, and key employee turnover. Additionally, failure to take leadership in other areas can lead to reputational damage. For example, institutions with inadequate plans to respond to the online education challenge or institutions with poor strategic plans may not maintain as strong a reputation as others.

UE's 2017 ERM survey asked board chairs and presidents about the:

- Number of reputational risk events that occurred at their institutions in the last three years
- Top three reputational risks encountered in the past three years
- Top three reputational risks facing the institution in the next three years

The good news is that about 21% of respondents stated that they had no major reputational risk events in the last three years. The not-so-good news is that all remaining respondents had at least one event and almost 62% reported that one to three major reputational events occurred, while another 14% stated that four to six major reputational events occurred. About 1% of respondents had seven to nine events and another 1% stated they had an astonishing 10 or more. Given that even one major reputational risk event could have a prodigious impact, these numbers should be a wake up call to college and university leadership to be prepared and take the lead in managing all risks, especially reputational risk.

Major Reputational Risks – Looking Back and Looking Forward

Looking Back. Survey respondents listed 213 major reputational threats that had been encountered in the past three years. Although some experienced none and others had 10 risk events, the overall picture is that institutions, on average, had 1.5 reputational risk events. It is important to note that the survey asked only about major events. Many less-than-major events may have occurred. The 213 reputational risk events were grouped to identify patterns and determine the top reputational risks looking back and looking forward.

The responses were categorized into 10 areas of top reputational risk. This list can serve as a starting point for your institution to assess threats to your reputation. While institutions may not be able to forecast the exact event that may damage their reputation, these general categories should launch a process to diligently identify potential reputational risks and the drivers of those risks; assess the impact and likelihood of those risks; and develop action plans to manage those major reputational risks. Additionally, when other risks are assessed, institutions may want to ask how that risk is related to and impacts reputation.

Reputational Risk Register

AREA	EXAMPLES OF AREAS TO ASSESS FOR REPUTATIONAL IMPACT
Academic Programs	• Quality and integrity of academic programs • Quality of students and faculty • Faculty conduct • Integrity of researchers and federal grant administration
Accreditation	• Actions taken by accreditors relating to accreditation status • Failure or poor scores on licensing exams
Athletics	• NCAA compliance • Athlete conduct • Coach behavior • Athletic conference
Business Model	• Enrollment trends • Fiscal management • Staffing levels • Tuition management
Campus Climate	• Diversity and inclusion of student body • Diversity and inclusion of senior administration • Controversial speakers
Cyber Security	• Loss of data due to technology breach • Phishing, ransomware, and other cyber events
Leadership Behavior and Talent Retention	• Quality of leadership • Leadership changes • Talent acquisition and retention • Fiscal responsibility
Sexual Assault/Title IX	• Prevention and response to student-on-student sexual assault • Title IX compliance
Student Behaviors	• Greek organizations • Campus safety • Student mental health • Inclusion of international students

Survey results identified the top major reputational risks over the past three years as (in descending order):

- Campus climate
- Sexual assault/Title IX
- Academic programs
- Student behavior

Looking Forward. When asked about reputational risk over the next three years, the pattern of reputational risk changes. The top reputational risk going forward is the business model. The viability of sustaining the business model of high tuition, high tuition discount, and diminishing state support weighs heavily on the minds of the leadership of colleges and universities. Recent Gallup and Pew Foundation polls affirm the tarnished reputation carried by higher education overall and the consistent questions from some, on the return-on-investment in a college degree.

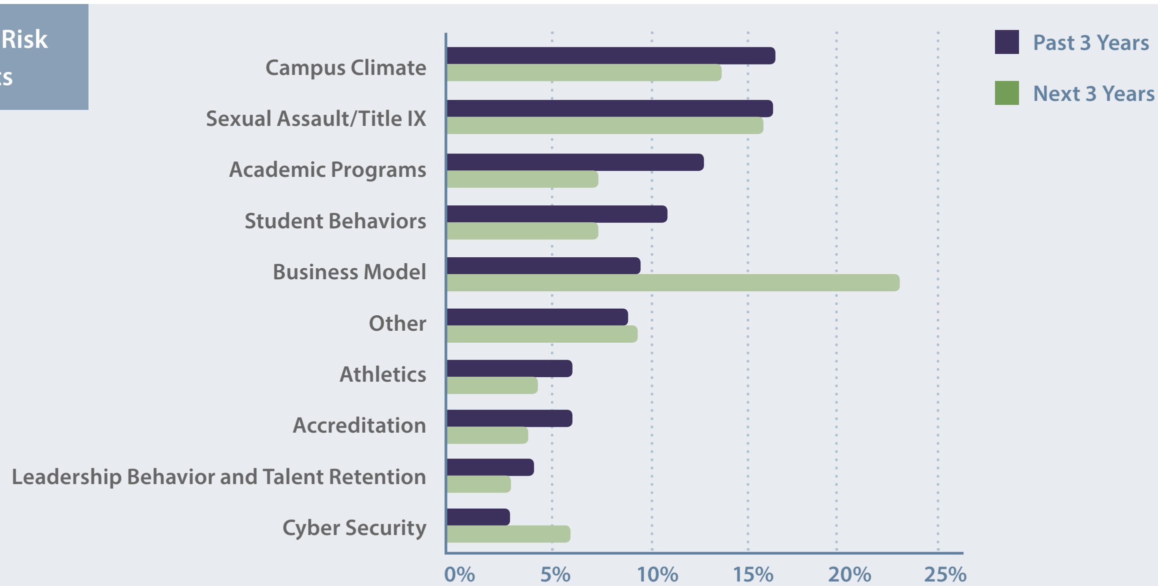
The top reputational risks going forward, according to the survey are (in descending order):

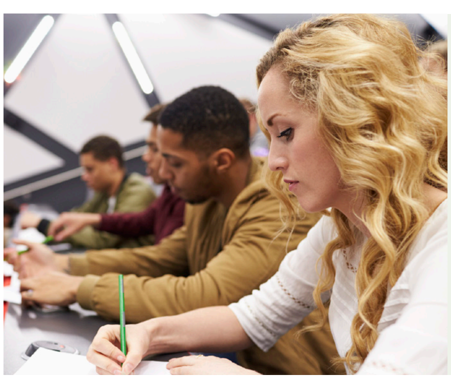
- Business model
- Sexual assault/Title IX
- Campus climate

The chart below shows how the reputational risk categories changed from the perspectives of institution leaders and board members. Of particular interest is that campus climate and sexual assault remain in the top three reputational risk categories, but the biggest reputational risk going forward has changed to the education business model. University leadership has clearly seen events that lead them to believe that the business model is at risk. It may be tautological to say but it is possible that failure to successfully manage reputational risks in the past may be the cause for the business model risks of the future.

Undisclosed and under wraps. Of further concern is that the numbers reported may understate the full reputational risk exposure. For example, almost half (49%) of respondents agreed with the statement "significant reputation risk events occurred that never became known outside the institution." In addition to under-reporting, this suggests a gap between what happens and what the broader community or public knows. Some may consider this good management of the institution but others could argue there is a lack of transparency (which could, in the future, erode the reputation). Of interest is that when asked the question about "never became known outside," board member survey respondents agreed at higher levels than the rest of the respondents. More than 62% of board chairs (versus 49% of all respondents) agreed with the statement, implying that there are other reputational risk events known only by those at the very top. Given the prevalence and pervasiveness of social media, it could be naive to assume that these "secret" risks will remain secret in the future.

Reputational Risk Survey Results





"The board's post-mortem is just one more way in which the Sandusky scandal continues to divide the university's leaders and to consume time, energy and emotion," says Robert Capretto, a Penn State University trustee. "It wears on you. I'm tough, but if I told you it didn't wear on you, I'd be lying."

—*The Chronicle of Higher Education,* March 20, 2017.

Framework Needed to Manage Reputational Risks

Globally leading ERM frameworks commonly list the importance of governance and culture in managing risks. Higher education should take note and follow their guidelines and best practice recommendations. Institutions cannot successfully manage reputational risks unless they build a governance and culture component, which can help set the tone, engage leaders, raise accountability, and promote desired behaviors around reputational risk. Several survey respondents noted that ERM is now incorporated into board orientation and board development activities. Programs by outside experts or ERM leadership in the senior administration share the ERM practices of the institution and the evolving risk register.

Building governance can start with setting the tone at the top, with board oversight for strategic risk, including reputation, and clear owners within the institution for identifying, measuring, mitigating, and reporting on the risk. When asked if their board has organizational oversight for reputational risk, 87% of survey respondents agreed. 75% of respondents agreed that reputational risk reporting to the board and administration is sufficient. A further best practice is to learn from neighbors or peers; 72% of respondents regularly review reputational risks at other institutions to determine their applicability to their own institution.

Furthermore, institutions also seemed to be aware of the importance of reputational risk and its growing significance, as supported by the 83% of respondents that agreed that reputational risk was more important now than three years ago. Finally, 84% agreed that reputational risk is more important to its stakeholders than three years ago.

"This is really going to damage the school," said Arthur Caplan, head of the division of Medical Ethics at New York University School of Medicine, not so much because of the alleged behavior but because of the university's apparent response. "It didn't look like people were moving quickly to handle these reports. Even when they had them in the newspaper, they didn't handle them quickly. That makes people wonder about leadership."

—Speaking about the *Los Angeles Times* report on a former dean of University of Southern California medical school. *Washington Post*, July 27, 2017

Processes to Manage Reputational Risk

To ensure that reputational issues don't diminish the institution's ability to meet its goals and objectives, reputational risks must be identified, assessed, and managed. When asked about the adequacy of resources to manage and understand reputational risk, 68% of survey respondents thought they were adequate. One benefit of allocating resources is that it not only enables the risks to be identified, but also that it can drive a proactive approach. When asked about the approach to major reputational risk causes and drivers, 51% said their approach was sometimes proactive. Unfortunately, only 26% follow a consistent, proactive approach and 23% stated their approach was reactive.

Allocating resources and being proactive leads to other reputational risk process enhancements. When respondents were asked if they had identified the top drivers/causes of reputational risk, 78% agreed. Furthermore, 67% agreed that they had developed action and response plans to address the drivers and causes of reputational risk. Such critical plans are hard to develop sufficiently unless the resources are in place and the reputational risk drivers are known and regularly monitored.

When asked if they had a process to ***know*** when a reputational risk event has occurred, a full 79% agreed that they had such a process and 86% agreed that they knew when a reputational risk event was escalating. However, only 66% of institutions agreed that they had a process in place to ***manage*** all major reputational risk events. Knowing is not managing the risk. When asked if they had identified the outcomes of the reputational risk events, only 56% stated they knew these outcomes. Given the numerous and potentially devastating outcomes that result from reputational losses, this result is both disappointing and surprising. When combined with the fact that only 46%—less than half—of institutions surveyed agreed that they have the resources and capabilities to withstand a major reputational event, the future could be bleak for some universities.

> ***"When a federal judge cleared the way this week for a lawsuit filed by 10 former students against Baylor University to go forward, it confirmed what many on the scandal-weary campus already suspected. The focus on how the university allegedly failed to take sexual-assault complaints seriously over a number of years would remain in the headlines...***
>
> ***Many worry that the scandal… has tarnished Baylor's reputation, hurt morale, and threatens to leave a black mark on the institution for years to come."***
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> —*The Chronicle of Higher Education*, March 10, 2017

High Performing Institutions

The survey results also revealed some key differences between those institutions that believed they were performing "substantially higher" or "higher" than their peer groups. Key differences show up in several dimensions and strongly suggest that there is a relationship between managing reputational risk and being a high performing institution. For starters, higher performers are more likely to have "a formal ERM process and structure" than non-high performers (85% versus 59%). They are also more likely to agree that "the level of resources used to manage and understand reputational risk is adequate (78% versus 59%) and are more likely to be proactive with their approach to reputational risk (93% versus 63%). Building an ERM process and being more proactive in their approach leads to other key differences.

For example, high performers are also more likely to agree that they have a process to manage all major reputational risks (81% vs 50%) and are more likely to agree that they have a process to know when a reputational risk event has occurred (90% versus 66%). These higher performers also have a better understanding of reputational risk outcomes with 69% of high performers agreeing that they "have identified the top outcomes" versus 45% of non-high performers.

Interestingly, the high performers did not agree that "reputation risk is more important to the institution/system now compared to three years ago." Only 79% of high performers agreed with this but 93% of non-high performers agreed, potentially implying that high performers have more consistently taken reputational risk seriously. Equally, of interest, high performers are better at keeping events inside the system (or keeping secrets). When asked about the occurrence of "significant reputational risk events. . . that never became known," 58% of high performers agreed (compared to 43% of non-high performers).

The process and approach used by high-performers pays off in other ways too. When asked to rate board engagement, 82% of high performers agreed their board was appropriately or over engaged as compared to 53% of non-high performers. Another key finding was that when asked about their institution's overall reputation, high performers were twice as likely to agree (85% versus only 40%) that they had a somewhat or much better reputation than their peers, suggesting a further correlation between managing reputational risk and being a high performing institution. Because so many institutions had major reputational risk events, perhaps the key is not just identifying and managing, but building resiliency around the risks so that the institution can survive risk events. Again, high performers seem to have this figured out better than others, even though only 57% of high performers (versus 34% of non-high performers) admit that they can withstand a major reputational risk event.

> ***"The audit of UC's management shows that the real threat to higher education is inside the house."***
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> —*Los Angeles Times* headline reporting on results of an audit of the University of California Office of the President, May 5, 2017

Opportunity Cost of Reputational Risk

Poor reputational risk management impacts other areas too. If a board's time is one of the most valuable aspects of its service to the institution, building an agenda and managing the board's schedule are priorities. However, time spent on managing adverse events and reputational risk is time not spent on strategy and the future of the institution. When asked about this, 56% indicated that the board spent time on adverse events that could have been spent on strategy, with presidents and other administrators agreeing with this statement more than board chairs.

Moving Beyond Complacency

The lists of reputational risk events that have occurred and potential reputational risks on pages 4 and 5 should not surprise higher education leaders. The headlines substantiate 63% the threats. What is surprising is the complacency of campus leadership in preparing for the inevitable. 63% believe their institution's reputation is somewhat or much better than their peer group, and a comparable amount (66%; perhaps the same institutions?) have a process in place to manage major reputational risks. This leaves the question of the other one-third of the institutions. Do they believe bad things won't occur or somehow they will sail through and not do further damage to the reputation? Institutions can follow these reputational risk best practices to prepare.

Reputational Risk Management Best Practices

These best practices can help ensure that your institution effectively identifies and mitigates those risks which pose a threat to your institution's reputation.

1. **Develop a common understanding of the institution's reputation** through a deep dive and surveys of constituents, students, alumni, faculty, staff, and community members. Include an analysis of social media mentions; rankings in guidebooks, including the *Princeton Review*; and other student-driven sites. Consider the impact of a reputational threat from various dimensions. Risk management strategies should be considered in light of this understanding of the reputation.

2. Assess and strive to steadily **improve the culture of the institution** and other factors that significantly contribute to the institution's reputation. Articulate the values and mission of the institution for all to understand, and communicate a clear understanding of how the institution operates. The level of engagement and transparency sets the stage for developing a reputational risk management strategy.

3. **Identify ownership and lines of communication for specific reputational risks**. The president ultimately owns both ERM and the reputation of the institution. The governing board provides oversight, engagement, and support. CFOs are often charged with managing the process.

4. **Pay attention to sacred cows**—programs, people, or areas that are steeped in tradition or perceived to be above reproach, and satellite programs that are not front and center to the administration. Ensure they receive reputational risk management just like every other program. If the broad category of athletics is identified as a reputational risk, a winning football program can be a sacred cow and a summer football camp, run by assistant coaches, could be a satellite risk. Both programs need to be on the radar.

5. Manage reputational and other risks in a portfolio and **understand how the risks are connected**. Determine how non-reputational risks impact reputational risk. Additionally , institutions should consider adding a reputational dimension when assessing the likelihood and impact of other risks.

6. **Share the risk register and mitigation plans regularly with the board** to gain its confidence in the institution's developing expertise in deploying appropriate resources to prepare for and respond to future events. Review with the board the institution's ability to be resilient, and to withstand and recover from an event.

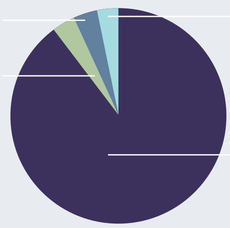
7. **Establish a monitoring system** that will give early notification to emerging reputational damage to your institution. Most institutions have established social media monitoring processes. Stay current on the new sites that serve students and alumni and blossom in a crisis. The mechanism for monitoring, tracking, and responding should be flexible enough to encompass unforeseen events but focused so that the institution is scanning the environment and surprises are minimal.

Closing

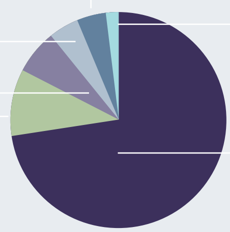
Nothing about leading and managing colleges and universities is getting easier. Warren Buffet's often cited quote "it takes 20 years to build a reputation and five minutes to ruin it" can be modified for higher education: "It takes 100 years to build a reputation and seconds to ruin it." Enterprise risk management and managing major risks such as strategy and reputation have become core competencies that are both expected and demanded. This survey demonstrates the importance of an institution's reputation to its long-term success. The challenge now is to act and take steps to maintain, enhance, and protect your reputation.

Survey Methodology

The UE Reputational Risk survey gathered data from 145 institutions in February 2017. The survey was sent to Board of Trustees chairs (16%), presidents (33%), chief financial officers (37%), and other senior administrators (13%). The responding institutions types were:



The responding institution sizes included:



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Students and Risk: Eight Critical Areas
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United Educators resources

A Guide to Creating and Improving a Campus Crisis Communications Plan
July 2016

Other sources

COSO Enterprise Risk Management – Integrating with Strategy and Performance
2017

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