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security are all at the operational level, and we pay careful attention to them. At the system office, the primary responsibility for identifying and managing those risks rest with the officers in collaboration with the chancellor, and at the campus level, it is the members of the president's cabinet that have responsibility for managing and identifying those risks and collaborating with the president.

Chair Hightower inquired why the board is not listed for having responsibility for strategic risks. Chancellor Rosenstone replied that the responsibility for the identification and management rests with management, while oversight of that (are we doing a good job, are there processes in place) is a core responsibility of the board. The chancellor has to be accountable to the board. The board's policy decision making authority is a tool to mandate that certain things are done. Board policies ensure that management has a set of rules on how it manages risk.

Trustee Benson commented that board oversight of strategic and operational risks is to some extent being shifted from the board to the legislature. Chancellor Rosenstone noted that part of that dynamic needs to be addressed, understood and managed as best as possible. The board has the responsibility for oversight of risk.

Focus on high probability / high impact risks

By focusing on risks that have a high probability of occurring and a high impact, Chancellor Rosenstone referenced a heat map showing significant, moderate and manageable risk levels in terms of probability and impact. The focus is on those risks that have a high probability of occurring and high impact with profound consequences (red zone). The goal is to manage those that are in the red zone and use management strategies to move them into yellow zone, which is moderate, or the green zone, which is a manageable. The red zone is where the board has an essential role in oversight and questioning to make sure that the focus is correct.

The discussion today is to focus on those risks in the red zone and where the board has an essential role to give oversight and scrutiny to the strategies we are using as well as to scrutinize whether we have coded properly and identified the right kind of risk. Strategic risks cut across the entire spectrum of operations: financial, human resources, compliance, technology and facilities. Operational risks could rise to the level of strategic risks. Chancellor Rosenstone commented that he cannot recommend systematically measuring, assessing and mitigating every type of risk that may exist. First of all, the task would be impossible. Second, it would require a multi-million dollar unit devoted to the task and the return on investment is not appropriate, and third, it would affect our ability to innovate. Enterprise risk management should not be delegated to a single committee; rather it is a conversation that the whole board should have on a regular basis.

The strategic risks are those that affect our ability to deliver on the strategic framework and protect the value of the work that our colleges and universities are doing for their communities, students and the state. There is an increasing pressure to transform higher education. The list of risks on slide 10 of the slide deck reach back to the board's retreat in September 2012 and the big questions that also informed the strategic workgroups. Chancellor Rosenstone explained that these are strategic risks that cannot be ignored as they affect the entire enterprise. They are:

1. Changes in the kinds of students we need to serve, in the needs of our students, and in student demand.

2. Changes in the nature of work and what is required for graduates to be prepared for jobs and careers; need to demonstrate that our graduates have credentialed competencies.
3. Growing concern about access, affordability and student debt.
4. Changes in revenue streams and constraints on revenue growth.
5. Need to increase productivity, responsiveness and accountability and reduce costs.
6. Increased competition, particularly from for-profits and non-traditional ventures that are challenging the traditional higher education model.
7. Increased external scrutiny from government, the public, taxpayers and others.
8. Demographic changes that will increase competition for faculty, students, and staff.
9. Powerful new technologies for teaching, course delivery and collaboration that require significant organizational and cultural change as well as significant investments (financial and human capital).
10. Visibility and reputation of our colleges and universities.

Chancellor Rosenstone continued that slides 11 – 19 are a high-level summary of how we are trying to address the risks that emerge in an environmental scan. The management strategies are steps we have identified and taken. He added that the strategic workgroups were intentionally asked a set of questions to help us better address how to respond to these risk. The trustees, faculty, staff, students and presidents that are participating in the strategic workgroups will see a mapping between the work and questions they have been wrestling with on the environment. There are three questions for the board to consider in their oversight:

1. Do we have the right list on the left hand column?
2. Do we have the right tools to try to manage the strategic risk?
3. What have we missed or what should be added on either column?

Chancellor Rosenstone reported that slides 11-13 list the eight top strategic risks. They are threats to quality, value, reputation, revenue and market share. The items on the left side keep him awake at night. The ones on the right hand side are management strategies for managing the risks.

Trustee Duane Benson observed that some risks are also opportunities, especially those pertaining to students. Chancellor Rosenstone agreed noting that the three goals of the strategic framework are a commitment to students. Trustee Cheryl Dickson inquired why students were listed with employees under Human Resources. She suggested adding a category strictly for students. The chancellor thought this may be a good suggestion. The intention was not to put students under Human Resources. There are operational risks for students such as student services and transfer of credit.

Discuss strategy going forward

Chancellor Rosenstone suggested that enterprise risk management may be a topic revisited at the next board retreat. He described the process by which the eight top strategic risks were identified. He reported that there were several discussions by the cabinet to distinguish between strategic and operational risk. He led the discussion on the strategic risks, and cabinet members shared their best thinking on management strategies. The leadership council has the same intentionality about the processes on the college and university campuses. Enterprise risk management is continuously practiced throughout the system.

