Texas A&M University System Risk Management Conference

Blueprints for Communication: Building Bridges to Your Senior Management

March 31, 2014

Jean Demchak, Global Education Leader
Managing Director
President’s Higher Education Initiatives

• Affordability

• Cost Containment

• Transparency and Accountability
Student Demographics

• Fewer high school graduates

• Enrollment challenges – privates

• Composition is changing:
  – Minority is majority
  – 1st generation, low income move from feeder schools that offer less academically
  – Adult learners

• Organizational challenge to meet demand
Transformational Leadership

• Evolution of Risk Management
  – Expectations of skill sets
  – Sophisticated approach: ERM
    - Performance based metrics

• Role clarity
  – Internal Audit
  – Compliance
  – Legal
  – Business Officer
Changing Role of Business Officer from…

• “Back office” to “key spokesperson”
• “Numbers only” to “overall strategy”
• “Solitary administrator” to “collaborative leader”
• “Revenue and expense manager” to “entrepreneur and cost cutter”
Changing Role of Business Officer to…

• In tune with the academic side
• Aware of legal and regulatory issues
• Attentive to data and information technology
• Focused on human resources and talent management
• Mindful of external politics
• Well-versed in facilities and construction
• Committed to teach and explain financial information to key constituents
## CBO Areas of Responsibility

<table>
<thead>
<tr>
<th>Area</th>
<th>2010</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Controller</td>
<td>94.5%</td>
<td>96.5%</td>
</tr>
<tr>
<td>Purchasing</td>
<td>90.3%</td>
<td>89.5%</td>
</tr>
<tr>
<td>Physical Plant</td>
<td>75.2%</td>
<td>77.3%</td>
</tr>
<tr>
<td>Human Resources</td>
<td>66.8%</td>
<td>67.0%</td>
</tr>
<tr>
<td>Public Safety</td>
<td>52.5%</td>
<td>51.9%</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>54.2%</td>
<td>50.5%</td>
</tr>
<tr>
<td>Other</td>
<td>33.1%</td>
<td>38.5%</td>
</tr>
</tbody>
</table>
CBO Most Important Duties...

<table>
<thead>
<tr>
<th>Task</th>
<th>CBO</th>
<th>Pres</th>
<th>Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing the institution's resources</td>
<td>77.1%</td>
<td>77.5%</td>
<td>86.8%</td>
</tr>
<tr>
<td>Strategic thinking and decision-making</td>
<td>38.7%</td>
<td>34.2%</td>
<td>26.6%</td>
</tr>
<tr>
<td>Leading change and fostering innovation</td>
<td>21.4%</td>
<td>18.6%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Supporting the president and managing up</td>
<td>16.6%</td>
<td>23.6%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Appropriately engaging the community in financial decisions/Communicating</td>
<td>12.8%</td>
<td>14.7%</td>
<td>5.6%</td>
</tr>
</tbody>
</table>
Culture that Resists Change...

• Culture that resists change
• Never enough money
• Belief by others that you are infinitely accessible
• Difficulty of cultivating leadership in others
• Unresponsive campus governance structures
CBO Perspective

• Top uses of time
  – Strategic/financial/capital planning
  – Ensuring financial, physical and human resources are responsibly managed
    - Budget management
    - Asset and liability management
    - Salary, benefit and performance management
    - Facilities management
    - Risk/compliance management
  – Supervising and managing personnel
  – Board relationships
CBO Perspective

• Issues of Future Focus
  – Institutional capacity to adapt the business model
  – Cabinet-level relationships/coordination
  – Board understanding of confluence of need to change and the academic culture
Key Relationship
Origin and Role: Legal vs. Compliance

• Legal
  – Probably the orators of ancient Athens (400-300 BC)
  – Recall – The first thing we do, let’s kill all the lawyers.
  – To provide legal counsel, advice to his client, argue and advocate in his defense, negotiate, research, and draft legal documents...
  – ...all of which is protected under “unauthorized practice of law” statutes.

• Compliance
  – To create and oversee the operation of “the 7 buckets” of an “efficient” compliance program (eligible for leniency; layered by best practices, increasing expectations of regulators and prosecutors, “alliance” with groups such as the SCCE)...
  – ...and to support a culture of integrity and ethics.
Legal vs. Compliance: Suggested Differences

• Legal
  – Tells you whether you can do something
  – Tests and prods rules; tells client all permissible constructs, legal options, and likely consequences
  – Stresses confidentiality to manage the conflict and minimize liability
  – Must be a lawyer and often has client relationship with privilege

• Compliance
  – Tells you whether you should do something
  – Neutrally applies rules to facts and lets the chips fall where they may
  – Stresses transparency; may want to publicize the facts and discipline taken
  – May be a lawyer, but rarely has client relationship with privilege
Examples of Higher Education

• Whistleblower/qui tam under Program Integrity Rules
  – Legal – a perceived threat that must go away; whistleblower is enemy
  – Compliance – a red flag that needs to perhaps open investigation to encourage others to come forward; protect whistleblower

• Monitoring non-compliance in mock program reviews or other settings
  – Legal – zealously represent the school, so do not document
  – Compliance – create transparency
Strategic Risk Management: Expectations and Opportunities

Key performance indicators (KPIs)

- Manage RM value through TCOR: 20%
- Competitive procurement of risk transfer: 15%
- Financial measures for retained/insured exposures: 15%
- Insurance budget management: 13%
- Mitigate liabilities/support preparedness: 7%
- Align RM objectives with company risk tolerance: 6%
- RM alignment with company goals: 5%
- Build strategic risk awareness across organization: 4%
- Deliver successful claim results: 3%
- Compliance: 3%

Source: Excellence in Risk Management VIII