

OPTIMIZING OPERATIONAL RISK

By Russ Banham



Jean-Francois Baril

RIMS

Managing operational risk at Montreal's Concordia University was a fragmented undertaking prior to the introduction of ERM principles four years ago. ERM at the large Canadian educational institution, with 45,000 students and more than 7,100 employees, continues to evolve, especially as new processes are reevaluated. But, the management of operational risk already is more consistent and coordinated, prophetically aligned with the origin of the university's name, "Concordia Salus," which means "well-being through harmony."

RIMS sat down with Jean-Francois Baril, Concordia University's corporate risk manager, to discuss his approach to implementing ERM at the school, whose founding institutions date back more than 160 years (Concordia was formed in 1974, following the merger of Loyola College (1896) and Sir George Williams University (1926)). The following represent a distilment of his responses to our questions.

RIMS: What was the impetus at the university for migrating towards an ERM model?

Baril: We knew we needed to examine our operational risks, both administrative and academic. And we needed a standard or a way to frame our implementation of enterprise risk management. We decided immediately to adopt ISO 31000. We made a decision to look first at our operational risks, before reviewing our strategic and reputational risks. We needed a more consistent, standardized decision-making approach to resource allocation.

RIMS: Would you elaborate on this need?

Baril: Our goal was to optimize operations—to have optimal resource allocation regarding our expenses against revenues. Unlike universities in the US, most Canadian universities are publicly funded and are considered non-profit organizations. We operate on a fixed budget and tend to focus most of our expenses on mission driven activities, which leaves resources very short (for more administrative, less academic activities). This creates risk. When uncertainty rears, we have a small pool of resources to deal with it. Obviously, this is not the most effective and efficient way to go about our business, particularly since we are growing.

RIMS: So this was the impetus and the beginnings of the ERM program. Have you moved beyond optimizing operational risk alone?

Baril: Yes, it didn't take us long to go from assessing purely operational risks linked to processes, systems and people only to a broader approach. We rapidly realized that each of the operational risks was directly correlated to financial and compliance risks. These in turn were directly linked to important strategic and reputational risks... from an ISO 31000 standpoint—the whole thing. It was through the operational risk assessment, including thorough root cause analysis, that we were able to identify the need to bring risk management from its original beginnings to a fully integrated view that encompasses all critical elements and aspects within the university.

RIMS: Is there a body within the university that oversees ERM?

Baril: With the support of my teammates Angela and Sara, I'm the person who spearheads the ERM Committee, which is composed of all the vice presidents here, such as the vice president of administration. Also on the committee are the CFO, the Secretary-General, our communications officer, the Treasurer and the director of internal audit for governance purposes. The ERM committee is linked with another internal group that includes the faculty deans, Provost and other academic people. In effect, we have the full participation of everyone with regard to risk management. Everyone is aware of our risks and is included in the decision process.

RIMS: Go back to the initial aim of ERM—the need to harmonize the management of operational risk. What were some of the first tactics in this regard?

Baril: We already had begun working with a well-known software company that I had met at the RIMS conference in Boston. We started working with them to build a risk registry, and then some heat maps and metrics. Through these efforts, we dug further into the types of (risk) information gathering we needed to do. We did things like assessing likelihood and impact, but we also got into management preparedness. By this, I mean we isolate the management preparedness levels with regard to each risk. While your actions will eventually have an impact on (risk) likelihood and consequences, it is in fact your level of management preparedness that is the truly measurable element of all this. The software platform guided us to take decisions that made us look at ourselves in a completely new light.

RIMS: So the goal was to measure management preparedness for a particular operational exposure to loss, as the means of optimizing the specific operation?

Baril: As management preparedness evolves and improves with regard to a specific risk, measuring this evolution and comparing it to where you were at the beginning is the key. You then document this evolution and improvement in the management of this risk. Documentation is critical. This way, when you go back in time, it builds organizational memory. You can access the documentation that you've gathered throughout the years to understand what led you to make the decisions you took, and where perhaps you should have made a different decision. We then have the opportunity at that time to change direction. ERM is all about increasing your management preparedness to sustain “negative” risks (threats) or to seize “positive” risks (opportunities).

RIMS: Can you provide an example of this risk management concept at work?

Baril: Sure. We did our first risk register in 2010. Two years after that, we went through our second phase of assessment to ensure we had a good grasp of our internal procedures and processes, and that they were efficient from a design standpoint. Initially, we had close to 275 people across the university who were involved with this risk assessment process at different levels of authority. We wanted to be sure each process regarding a specific action was efficient and properly designed, and we determined during the assessment that there were, in fact, some issues.

RIMS: What were they?

Baril: A process often was in the memory of one employee. That person knew how to manage a risk and respond to an event, and was super-efficient and effective insofar as the related processes and procedures. But, what happens if this employee is hit by a bus? Who would take over? In some cases, the employee had been on the job for so long they had actually invented the process. In the meantime, technology had come along and spreadsheets were introduced and the person failed to take advantage of these opportunities to document his or her processes. If someone asked them what they were, they were stuck—they were running on automatic pilot. The process for them may have been second-hand, but no one else had a clue. We quickly realized we had serious knowledge transfer issues. Since we have a relatively high turnover ratio like other universities, this was a significant problem. That led us to document all processes and procedures.

RIMS: Have you completed this leg of the ERM journey?

Baril: Not yet. We are at this moment undertaking a full revision of our key processes. Once we document them, we will begin to train new employees with respect to understanding what they are. The sustainability of our operations depends on our ability to have robust processes, but it is just as important to ensure this knowledge is transferred.

RIMS: Have you learned anything in this exercise?

Baril: Yes, as we have gone through the exercise, we're realizing that some processes involve redundant tasks. We're also finding a lack of consistency across the organization. In both cases, this is allowing us to really hone in on improvements.