MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES
STUDY SESSION
MAY 22, 2013
MCCORMICK ROOM
30 7TH STREET EAST
ST. PAUL, MN

Present: Chair Clarence Hightower and Trustees Ann Anaya, Brett Anderson, Margaret Anderson Kelliher, Duane Benson, Alexander Cirillo, Cheryl Dickson, Dawn Erlandson, Philip Krinkie, David Paskach, Maria Peluso, Thomas Renier, Louise Sundin and Chancellor Steven Rosenstone

Absent: Trustees Alfredo Oliveira and Michael Vekich

Convene
Chair Clarence Hightower convened the study session at 10:30 a.m. He called on Chancellor Steven Rosenstone to introduce the topic of Enterprise Risk Management.

Introduction of Enterprise Risk Management
Chancellor Rosenstone commented that the last formal discussion on Enterprise Risk Management was during a Finance and Facilities Committee meeting in March 2011. Enterprise Risk Management is a topic for the entire board; it is an essential component of board oversight. The chancellor's responsibility with the board's oversight is to protect the capability and value of the system. One of the nine briefs on issues facing the system that was prepared for the board's retreat in September 2012 focused on enterprise risk management. As a follow-up, the board requested a formal and intentional review with a systematic approach to enterprise risk management.

The goals for the study session are to:
* Understand our enterprise risk management strategy;
* Review our identification, assessment and management of risks;
* Focus on high probability / high impact risks;
* Discuss strategy going forward; and
* Receive board feedback

Understand Our Enterprise Risk Management Strategy
Chancellor Rosenstone explained that every organization operates in an inherently risky environment. Risks cannot be eliminated, but an effective strategy can anticipate, mitigate and manage those risks in a way that protects the resources and reputation of our colleges and universities increasing the ability to achieve our core objectives and responsibilities to realize the three commitments in the Strategic Framework:

* Ensure access to an extraordinary education for all Minnesotans;
* Be the partner of choice to meet Minnesota's workforce and community needs; and
* Deliver to students, employers, communities and taxpayers the highest value / most affordable option.

Our management of risk can affect the quality and reputation of the work of our colleges and universities in service to students and Minnesota. Chancellor Rosenstone noted that any new enterprise that we engage in, such as a new facility or program, will have some inherent risk. If we are unwilling to take some risk we will not be able to gain from any innovation. Any entrepreneurial activity will have risk associated with it. The board's goal should not be making decisions only when all risk has been taken out. That will make us slow, not very agile and unable to be innovative. The questions will be how much risk is tolerable and what is the downside of any failure.

Risks can be everything from people tripping on the sidewalk and hurting themselves and not being able to work, to risks having to do with students no longer coming to the colleges and universities for a variety of reasons. Enterprise risk management is a structured approach of intentional thinking about uncertainties that the system must face. It is an inherent and critical component of leadership's long-term strategy and execution as well as board oversight.

Review our identification, assessment and management of risks
Everyone is responsible for risk management. Board Policy 5.16 assigns particular responsibility to the chancellor and to the presidents of the colleges and universities. One way to understand and manage risks is through the strategic plans for the system and by the presidents for their colleges and universities and the actual financial plans. The creation of the strategic framework was not an accident. Chancellor Rosenstone explained that it was the result of conversations with the presidents over the summer prior to his arrival, and a conversation with the board at their retreat in September 2011 to try to understand the environment and the value of our system.

There are lots of people every day who are responding to and making decisions about risks – to fix a sidewalk or upgrade a mechanical system. When the system office building was closed on April 1, the leadership of the system followed a plan that managed that potential risk to ensure continuity of operations across the system. At the system level, the members of the cabinet have a particular responsibility for attending to and managing the risks associated with their particular portfolios. This is an ongoing process that is embedded inherently in the work that all of us do every single day. We want to increase the intentionality and create a process where there is oversight and move beyond the operational with more focus on strategic risks.

Strategic risks are threats to the realization of core objectives of the system; they threaten the integrity and vitality of our colleges and universities. If we do not turn out quality graduates who meet the needs of employers, that is a big risk to the system as a whole. If things happen that threaten the reputation of the system. then we have an enterprise risk to the system as a whole. Chancellor Rosenstone said that the primary responsibility for identifying and managing those risks at the system level rests with him, and he does it in collaboration with the cabinet. At the college and university level, the responsibility for leading the discussion and management strategy for strategic risks rests with the president, in collaboration with his or her cabinet.

Operational risks are what Laura King, vice chancellor for finance and administration, Gail Olson, general counsel, Brian Yolitz, associate vice chancellor for facilities, and other members of the cabinet think about every single day to ensure that we are understanding and protecting threats to assets, people and compliance with laws and regulations. The integrity of our financial system is an operational threat that needs to be understood and managed. Emergency preparedness and network

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.

Receive board feedback
Trustee Margaret Anderson Kelliher complimented the document. She asked the chancellor to comment about the mix of the management strategy on things that we control versus those with outside control, such as the Itasca Workforce Alignment Project. Chancellor Rosenstone explained that we cannot accomplish what we are trying to do alone. He added that he co-chairs the Itasca Workforce Alignment Team with the executive vice president of Schwan's. One way we can accomplish what we need to accomplish and manage risk is in partnership with the team. The outcome of that work is a strategy for how we can accomplish our goals. We know that our ability to have higher completion rates, to serve more diverse students and to be successful as a system of colleges and universities fundamentally rests on the preparation of our students. Similarly, our partnerships with the Department of Employment and Economic Development will affect our ability to deliver on all kinds of fronts. There is a false sense of security in our own organization about control. We weigh those things in our portfolio that we have direct control over versus those things that are outside of our control.

Trustee Louise Sundin had several questions and suggestions. She noticed that the word "underrepresented" was not present in item number three, and she suggested adding "women" and Science, Technology, Engineering and Math (STEM) to the explanation. She also asked if awareness and reputation in item number 6 include rebranding. In number 8, she inquired if any of our faculty or employees do research that result in a revenue stream. Last, instead of talking about managing the risk of these categories, would it be helpful to engage in an exercise about managing the opportunity. Trustee Sundin also commented on opportunities that were missed because we were not flexible and entrepreneurial. Chancellor Rosenstone replied that these are good points and suggestions. He added that there are remarkable things going on at the campuses year round and at times it seems like no one knows of them.

Trustee Phil Krinkie commented that the system has an image issue; it lacks a brand. He added that there is a need to have a better understanding of the autonomy of the institutions and the strengths and weaknesses of the system. He continued that even the legislature does not understand the system. Several trustees agreed with his assessment. The board received recommendations to improve the system's brand.

Trustee Thomas Renier commented that there is confusion and misunderstanding about the system. A core issue and misperception that is shared by many is that MnSCU is a state agency. We are not a state agency. Too many policy makers, governors and others treat MnSCU like a state agency.

Chancellor Rosenstone reviewed the top operational risks starting on slide 14 related to technology, financial, human resources and compliance with laws and regulations. The management strategies are more forward-looking. For example, in Human Resources, 40 percent of employees are retiring in five years. There are compliance risks in retirement management, Family Medical Leave Act (FMLA) and Fair Labor Standards Act (FLSA). General Counsel pays attention to Title IX and litigation. Top operational risks in technology include system stability and data security. Technology has to work collaboratively with Academic and Student Affairs and Human Resources to make sure the right redundancies are in place so there is access if a site fails. Facilities' risks include infrastructure reliability, maintenance, operations and physical plant and costs associated with maintaining them.

Chancellor Rosenstone concluded the presentation by asking the board what assurances they need at the strategic and operational levels. There will be regular discussions by the chancellor's cabinet and leadership council on risk identification, assessment and management strategies. These also will be included in strategic planning processes, annual performance reviews and goal setting for the chancellor, presidents and chancellor's cabinet. In addition, Chancellor Rosenstone recommended an annual study session with the Board of Trustees to report on identification, assessment and management of high probability / high impact risks.

Trustee Brett Anderson inquired about threats to safety, such as rape and terrorist attacks. The chancellor explained that there is Board Policy 1B.3 Sexual Violence. As to terrorist attacks, the system provides training on crisis management. General Counsel Gail Olson added that these issues require crisis management at one level and training and advisement on the other. Trustee Dickson suggested adding a separate box for safety issues for students and employees under Human Resources.

Trustee Renier recalled that the board had a good conversation about crisis management some time ago, and he proposed scheduling a study session on safety and crisis management. He commented that technology was a big risk for the system several years ago. It needed a major investment and it was in the red zone until the legislature provided funds specifically to improve the system's technology infrastructure. He inquired if technology is caught up or if it needs another investment. Chancellor Rosenstone responded that given the pace of change in technology, there is always some risk. The two dimensions are the liability and role of education. Chris McCoy, vice chancellor for information technology, concurred with the chancellor's assessment.

Chair Hightower noted that this was an excellent discussion. In addition to scheduling an annual study session on enterprise risk management, the board will work with the chancellor to include this task in his performance goals.

Chair Hightower adjourned the study session at 12:00 pm.

Ingeborg Chapin
Secretary to the Board