RISK MANAGEMENT: THE THEORY

Prof Colin Raban

Risk Management: the theory

- Risk and recent trends in quality assurance
- Design specification for a 'genuinely risk-based' approach to assurance and regulation
- Risk, trust and quality enhancement
- Preconditions

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Recent trends in QA (Europe)

- 'Push for accountability': 'measures based upon an ethic of suspicion' despite 'a trust-based rhetoric'.

- 'Experiments with QE may be seen as universities bidding to regain trust by reasserting that quality remains their major responsibility, with the role of external agencies confined to quality audit. QE repatriates responsibility … back to the institution'.

- Risk management is 'imported from business'. Will it be possible to 'combine a risk-based QA system with a genuine QE approach'?

Recent trends in QA (UK)

- 'Massification'

- 'Marketisation'

- Accountability

Accountability

...the comfortable days are gone: the new stake-holding public no longer accepts the legitimacy of unaccountable priesthoods.

John Randall, Former Chief Executive of the QAA: 1998

Recent trends in QA (UK)

- 'Massification'

- 'Marketisation'

- Accountability

  - to the State and the 'tax-paying public'
  - to the 'consumer', with an emphasis on public information, transparency and student satisfaction.

Assurance through the market

'Our reforms to higher education funding will promote the development of a more diverse, dynamic and responsive higher education sector where funding follows the student and the forces of competition replace the burdens of bureaucracy in driving up the quality of the academic experience'.

Higher Education: students at the heart of the system (para 1.45)
Department for Business, Innovation and Skills, 2011

Provenance

- Corporate governance and the 'modernisation' agenda.

- The revolt against 'intrusive accountability' and the promise of 'light touch' regulation.

The 'burden of bureaucacy'

As the demand for higher education continues to grow so does the scrutiny of universities. We are the most scrutinised education system in the world – and it should be emphasised that we are very, very rarely found wanting…. But I also know every institution represented in this room will have felt beleaguered by the bureaucracy of the endless rounds of assessment we now undergo.

Howard Newby, Annual Residential Meeting, CVCP 1999

The 'burden of bureaucacy'

(The) behavioural cost of the accountability arrangements…is probably the biggest cost of all. I refer to stress and, most importantly morale. The cost in staff morale is horrendous. That cost has to be put in a wider context. The growing burden of bureaucracy is but one of the many pressures to which academics are now subject. Academics are now under tremendous pressure. They work hard, yet they are under-resourced, under-valued and under-paid….

Lord Norton of Louth, House of Lords, March 2001

Accountability

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- Corporate governance and the 'modernisation' agenda.

- The revolt against 'intrusive accountability' and the promise of 'light touch' regulation.

- The costs and (ineffectiveness) of internal QA and external regulation

Cost-effectiveness

Lord Norton described the consequences of the current accountability arrangements as 'pernicious and long term' and he claimed that if they were to continue they would 'undermine rather than enhance the quality of teaching'.

Lord Norton of Louth, House of Lords, March 2001

Provenance

- Corporate governance and the 'modernisation' agenda.

- The revolt against 'intrusive accountability' and the promise of 'light touch' regulation.

- The costs and (ineffectiveness) of internal QA and external regulation

- Government policy and institutional risk-taking

- Current proposals for 'a risk-based approach' to 'quality assurance'.

The 2011 White Paper

(The) changes proposed in this White Paper will create new challenges for the quality assurance system. These changes will require a strong but well-adapted quality assurance regime based on assessment of risk …. We propose a genuinely risk-based approach, focusing QAA effort where it will have most impact and giving students power to hold universities to account.

Higher Education: students at the heart of the system (paras 3.18-19)
Department for Business, Innovation and Skills, 2011

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A 'genuinely risk-based approach'?

- The definition and meaning of 'risk'

- Identifying and assessing risk

- Managing risk

- Responsibility and mutual accountability

A 'genuinely risk-based approach'?

- **The definition and meaning of 'risk'**
  - Risk as uncertainty
  - Risk as harm
  - Risk as relationship

- Identifying and assessing risk

- Managing risk

- Responsibility and mutual accountability

Risk as uncertainty

(Risk is) the existence of incalculable unknowns.

The Observer, 20 May 2012

('shit happens'!)

Risk as uncertainty

The term 'risk regime' distinguishes 'the securities, certainties and clearly defined boundaries' of earlier times with 'the insecurities, uncertainties and loss of boundaries in the second modernity'.

<div align="right">Ulrich Beck, The Risk Society</div>

Our external operating environment has been in unremitting flux. We have had to deal with volatile political and social conditions and shifting government policies in regard to higher education and its future.... (We) must take such turbulence into account in the management of our affairs'

<div align="right">Vice Chancellor, 2004</div>

The conceit of risk management

'Can we know the risks we face, now or in the future? No, we cannot: but yes, we must act as if we do'.

M Douglas and A Wildavsky, *Risk and Culture*

'The narrative of risk is a narrative of irony. This narrative deals with the involuntary satire, the optimistic futility, with which the highly developed institutions of modern society - science, state, business and military - attempt to anticipate what cannot be anticipated'.

Ulrich Beck, *Living in the World Risk Society*

Risk as harm

"Risk" (is) the probability that a particular adverse event occurs during a stated period of time.

Royal Society for the Prevention of Accidents,
Risk Assessment: a study group report, 1983

The most commonly encountered definition of risk is a compound measure combining the probability and magnitude of an adverse effect.

John Adams, *Risk*

Risk and control

In contemporary western societies, where control over one's life has become increasingly viewed as important, the concept of "risk" is now widely used to explain … misfortune and frightening events. This concept assumes human responsibility and that "something can be done" to prevent misfortune.

Deborah Lupton, *Risk*

Risk as relationship

'The threat or possibility that an action or event will adversely or beneficially affect an organisation's ability to achieve its objectives'.

HEFCE (2001), *Risk Management: a Guide to Good Practice*

For us to consider something as a risk, it must have the potential to cause harm to one or more of our statutory objectives.

Financial Services Authority

Risk is the possibility of something happening that impacts on your objectives.

Australia/New Zealand Standard for Risk Management (AZ/NZ2: 2004)

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A 'genuinely risk-based approach'?

- The definition and meaning of 'risk'
  - Risk as uncertainty
  - Risk as detriment
  - Risk as relationship
- **Identifying and assessing risk**
  - **Prediction (for prevention)**
  - **Risk maps**
  - Who assesses?
- Managing risk
- Responsibility and mutual accountability

The FSA 'Risk Map'

GROSS RISK	Environmental Risk Institution's Business Model
NET RISK	Risk controls Oversight & Governance 'Other mitigants'

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Savoir pour prévoir, afin de pouvoir

August Comte

A 'genuinely risk-based approach'?

- The definition and meaning of 'risk'
- Identifying and assessing risk
  - Prediction (and prevention)
  - Risk maps
  - Who assesses?
- **Managing risk**
  - Integrated and selective rather than separate and universalistic procedures
  - Support for (as well as scrutiny of) provision and providers that are potentially 'at risk'.
  - Engagement with internal control systems
- Responsibility and mutual accountability

Support vs scrutiny

'External processes of quality assurance … will become effective only if (they are) … forward looking and orientated toward building and developing institutions rather than simply inspecting them'.

EUA (2005), *Developing an Internal Quality Culture in European Universities*

Quality assurance processes – both external and internal – should aim at enhancing the institutions' capacity to change in order to reach the strategic goals of each institution better. Thus, we invite both QA agencies and HEIs to commit to a developmental approach in their quality assurance processes.

EUA (2009), *Improving Quality, enhancing Creativity*, Final Report: QAHECA Project

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Control systems

It has become increasingly accepted that regulation is likely to be more effective and more acceptable if it works with the grain of private control systems. By harnessing private control activities for public regulatory purposes, regulatory organisations can be relieved of much of the economic and epistemic burden of detailed rule-making, and can focus on overseeing the design and functioning of local systems.

Michael Power, *The Risk Management of Everything*

Engagement as partnership

A precondition for an effective QA that enhances creativity is a partnership between institutions and agencies. This partnership will create space and trust for critical self-reflection which is a prerequisite for creating something new. Trust could be increased for example through confidentiality of institutional self-evaluation reports and developing external QA processes that are based on incentives rather than sanctions.

EUA (2009), *Improving Quality, enhancing Creativity*, Final Report: QAHECA Project

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Dialogic Accountability

University managers 'could think of using a drill to tap into a well of good ideas in departments and enable them to flow productively through the institution'. A 'dialogic' approach to quality management 'takes on board the perspective from below … and results in a very different dynamic for institutional improvement than that likely to ensue from … top down imposition'.

Sue Wright: *Enhancing the Quality of Teaching in Universities: through coercive managerialism or organisational democracy?* (LTSN 2003)

Unintelligent accountability

'(Accountability can be) the enemy of effective governance, and also of plain truth-telling. … The more severe and detailed are accountability obligations, the less can they reveal the underlying realities for which the universities are being held accountable'.

Martin Trow

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Conventional and risk-based QA

- Retrospective
- Provision-focused
- Separated
- Universal
- Upward accountability

- Predictive
- Context-focused
- Integrated
- Selective
- Mutual accountability

Assurance vs Enhancement-led QM

- Inhibits frank ('bottom-up') reporting

- Encourages and requires frank reporting

Unintelligent accountability

'...the habits of truth-telling erode, and reports flowing up from the field come to have less and less relation to the facts on the ground that they purportedly represent....(These reports) become less and less exercises in discovery or truth telling, and more and more public relations documents which are, shall we say, parsimonious with the truth'.

Collegial engagement

- Harness staff creativity and commitment for enhancement:
    - Improving academic practice
    - Innovation
    - Resources and infrastructures

Assurance vs Enhancement-led QM

- Inhibits frank ('bottom-up') reporting

- Promotes incremental improvement of academic practice ('closing the loops')

- Discourages risk taking (low risk appetite)

- Encourages and requires frank reporting

- Facilitates transformational change to surface & deep conditions for learning

- Supports and manages risk taking

Collegial engagement

- Harness staff creativity and commitment for enhancement:
    - Improving academic practice
    - Innovation
    - Resources and infrastructures
- Assure academic standards through the design of curricula and the assessment of students
- Ensure the appropriateness and quality of students' learning opportunities

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'The audit found the University's commitment to enhancement of the quality of learning opportunities evident in the structures and processes of management and embedded in the inclusive, open and reflective culture of the institution'.

(A feature of good practice was) 'the development of a culture of inclusivity, openness and self-reflection which underpins the successful operation of the University's quality assurance and quality enhancement processes'.

Preconditions

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(A feature of good practice was) 'the development of a culture of inclusivity, openness and self-reflection which underpins the successful operation of the University's quality assurance and quality enhancement processes'.

Institutional Culture

'Openness to challenge is a critical cultural necessity for good risk management and compliance – it is in fact more important than any framework or set of processes'.

Paul Moore, *Evidence to Treasury Select Committee* (February 2009)

Acceptance of failure and risk-taking

Risk-based regulation (should be) premised on the acceptance that failures and accidents are possible in complex environments, even with the most competent, ethical and expert oversight possible. Given the emphasis being placed on the importance of innovation to economic growth and prosperity, it might even be said that some failure is necessary.

Michael Power, *The Risk Management of Everything*

Acceptance of failure and risk-taking

Quality assurance processes need to allow risk taking and failure which are essential for creating new knowledge. Internal quality assurance processes should be able to identify failures and define the process through which the institution reacts and rectifies the situation when a failure has taken place rather than prohibit risk taking altogether. For its part, external quality assurance should aim at checking if an HEI is capable of reacting to abnormal circumstances rather than sanctioning occasional failures.

EUA (2009), *Improving Quality, enhancing Creativity*, Final Report: QAHECA Project

Cultural preconditions

- The 'intelligence' (knowledge and ideas) brought to the institution by its 'front line' staff is valued;

- The production of frank reports is rewarded; anodyne reporting is discouraged;

- Support is targeted on areas in need; and scrutiny is applied proportionately in accordance with assessments of risk;

- Staff at all levels adhere to the principle of mutual accountability.

Management structure & processes

The (Bank's) high risk lending strategy … required a commensurately robust control framework. However, … there were significant issues: (1) with the effectiveness of the control framework…; (2) with the effectiveness of managerial oversight and supervision …; (3) in relation to the culture of the business, such that risk management was regarded as a constraint on the business rather than integral to it; and (4) as to the quality, reliability and utility of the available management information….

FSA (September 2012): Final Notice to Peter Cummings, Chief Executive, HBOS Corporate Division

Structural preconditions

- The QA function must have a degree of independence, with primary accountability to Academic Board or Senate

- Ideally, responsibility for assurance should be combined with responsibility for enhancement (including the development of programmes and academic practice)

- The QA function should be academically-led, and must command the respect of staff at all levels within the institution.
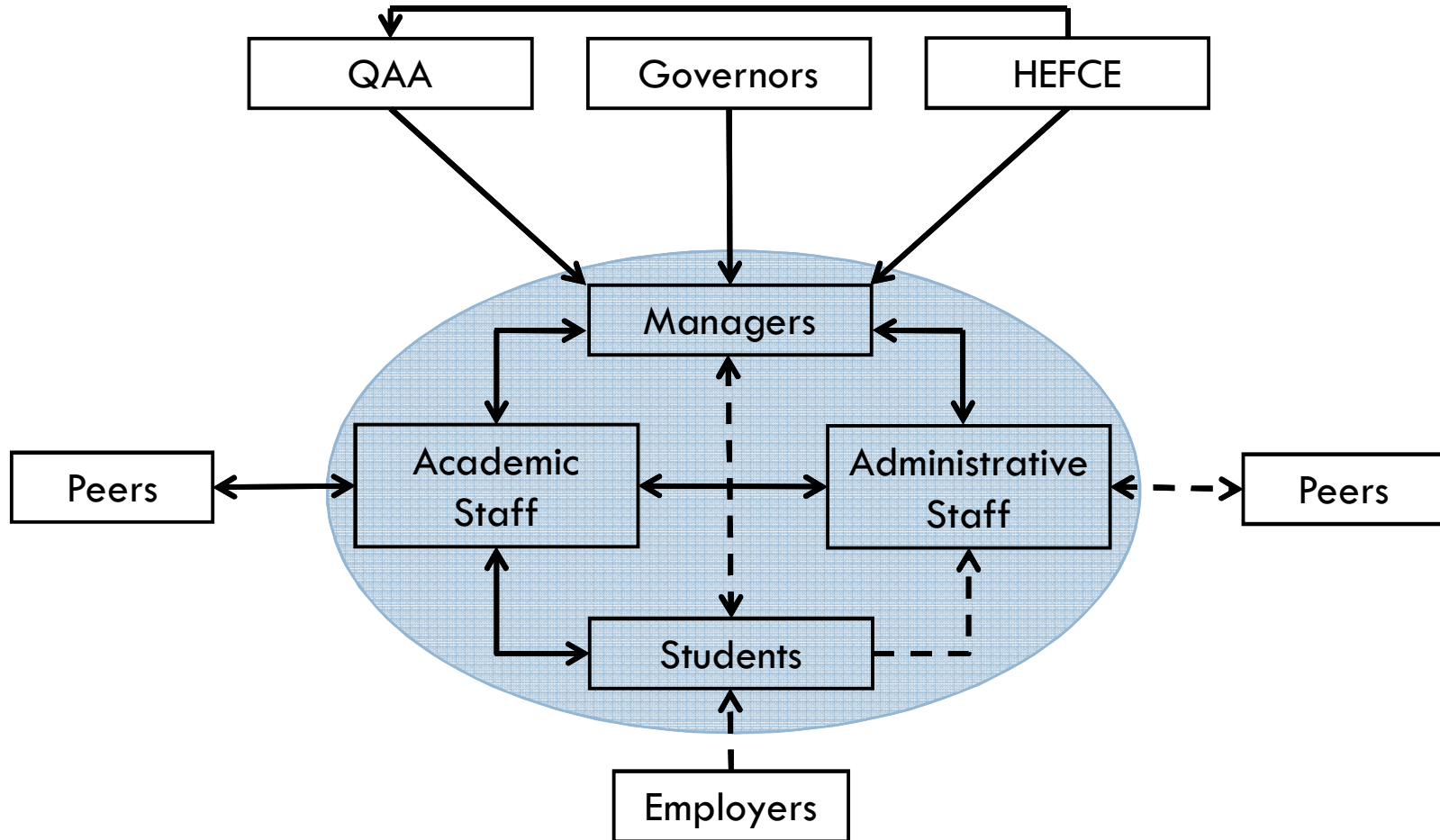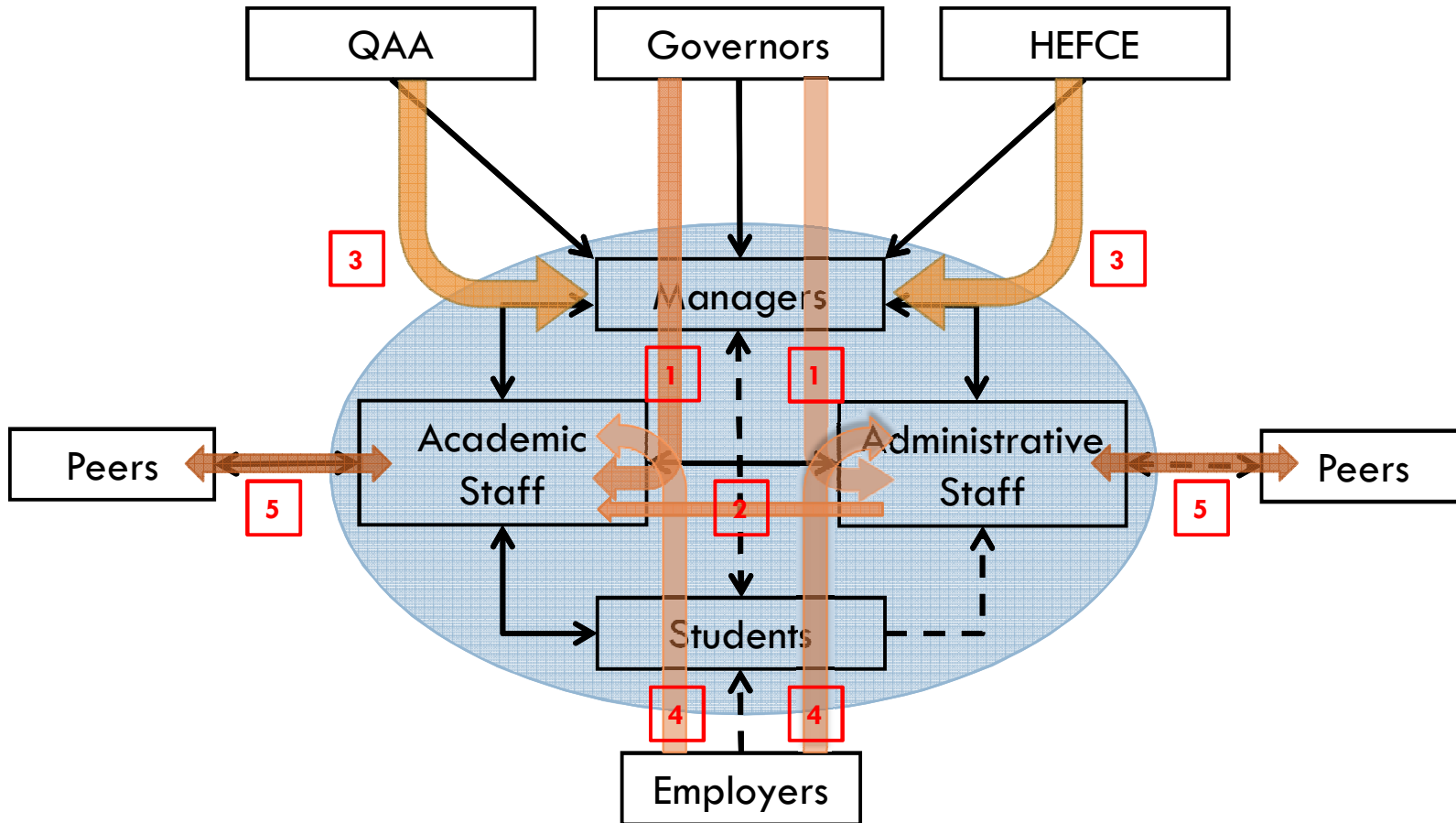
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QAHECA Recommendations

- Context sensitivity

- Developmental approach

- Inclusivity

- Engagement of key actors

- Partnership between institutions and agencies

- Allow risk taking and failure

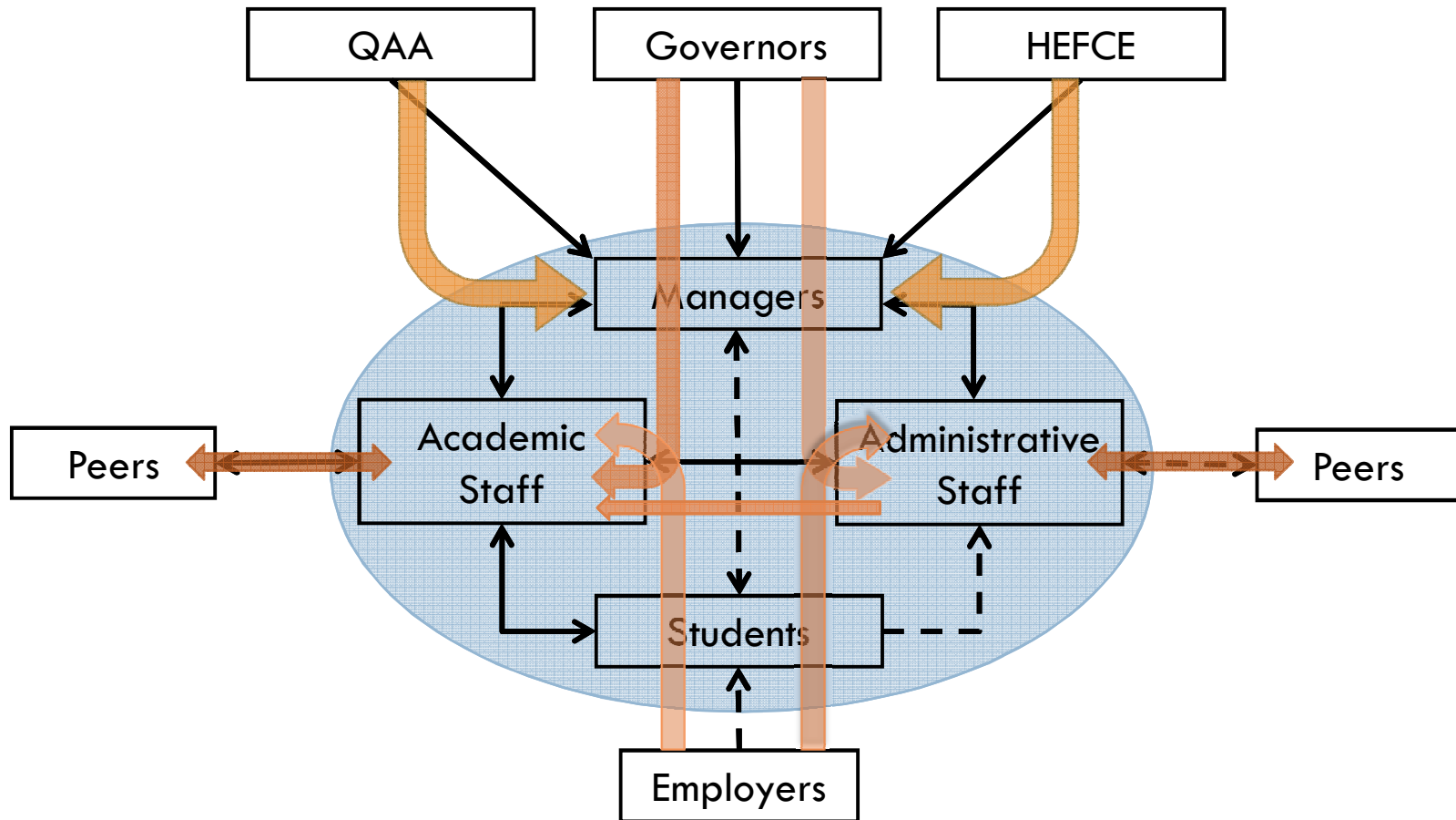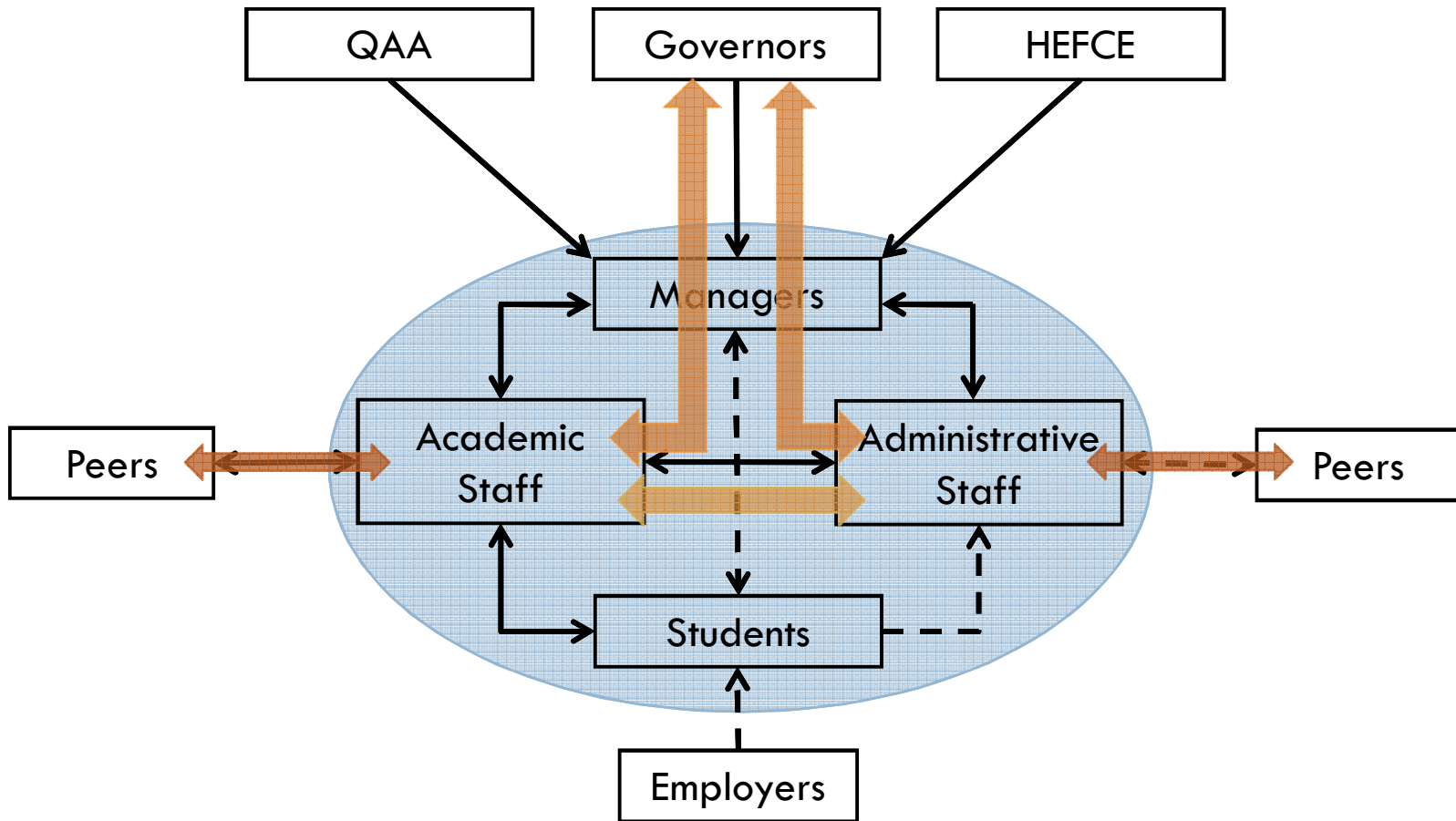- Sharing experiences in QA

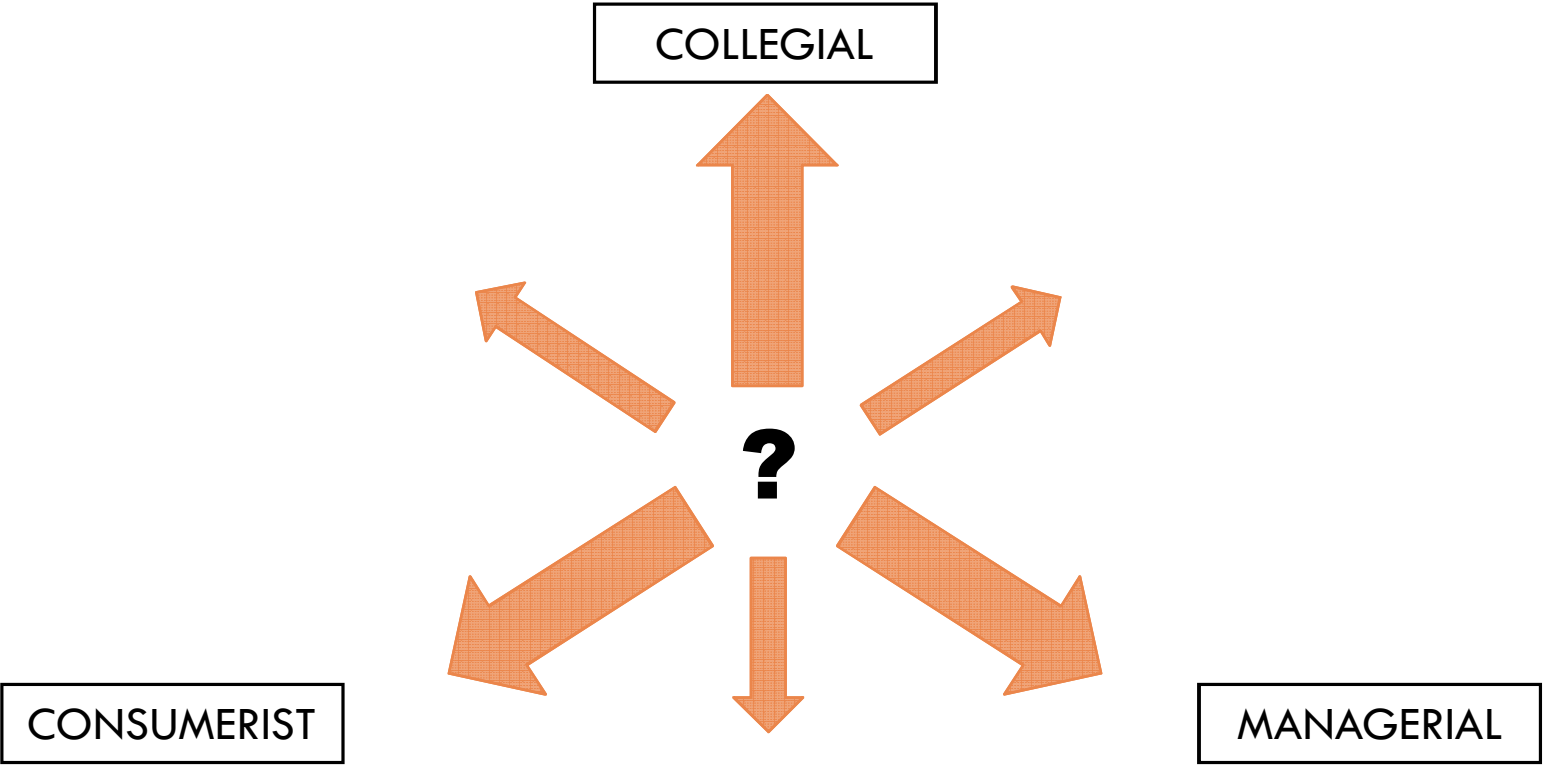# Stakeholders

Accountabilities

Accountabilities

Mutual accountability

Directions of travel

COLLEGIAL

?

CONSUMERIST

MANAGERIAL

The currency of 'risk'

- No reference to risk in the 1999 edition of Section 2 of the *Code*

- 42% of Continuation Audit (1997-2002) and 68% of Institutional Audit reports (2002-06) use the term

- 'Risk' appears in 52% of Overseas Audit reports (2000-06) and 92% of CPA reports (2005-06)

- It is mentioned in the 2004 edition of Section 2 of the *Code*, and it is the focus of the 2010 *Amplified Version* and Chapter B10 of *the Quality* Code.

- The 2011 White Paper and the 2012 HEFCE Consultation ('*A risk-based approach to quality assurance*').