4.Risk Management

<u>Speaker Key</u>:

EL	Ellen Leabeater
TC	Theresa Collignon
PB	Phil Butler
DK	David Knowles

EL Welcome to the Community Colleges Australia podcast on governance. I'm Ellen Leabeater. In this episode you'll find out about the different types of risks, and how to manage them. Theresa Collignon from Macquarie Community College, and Phil Butler from the Australian Institute of Company Directors will be guiding you through risk management. First up is Theresa. She's the CEO of Macquarie Community College, and is also the Treasurer for the CCA board.

TC To me the learning I've had, as the CEO of a community college, and I think now I've operated in every possible sector from babies to post-graduates in education, is that it is quite a risky business, because it is not a highly profitable business, so you're always thinking about the revenue horizon, and then I think the other thing is because you serve a very broad cross-section of society, there's a bit of a risk in trying to be all things to all people.

So risk will come in waves, I suspect, but there's always some kind of wave coming, and it's knowing whether it's a tidal wave or a little, little ripple is probably the bit that's a bit hard to work out. And what do you do when it is a tidal wave, how do you protect yourself, is probably where I spend a fair bit of time at the moment. But I'd rather just have concerns about the ripples on the sand.

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EL So when it comes to risk, who are the main people that are at risk?

TC Well, obviously your own people, your customers. So the safety of our participants is our primary concern, but also that of our staff. We are sitting here today surrounded by things that are plugged in, electrical things, lighting, so, you know, just work health safety is pretty critical.

EL And that's the board's job?

TC Well, they are liable, and so they're not here to come and inspect whether the chairs have got the right legs, but they need to make sure there's an operating system that works to monitor hazards, deal with continuous improvement reporting, etc, and work health and safety. I'm not pretending that community colleges are a dangerous environment, like a mine or a child care centre, but, you know, work health safety is important.

Financial risk is really important. And ultimately what we've got to make sure is that in this context, we are meeting the standards that are required of us to deliver training, and manage contracts, and keep customers satisfied. So a risk is about continuity of business. If you don't have happy customers, you don't have any business.

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EL Is that you, as the CEO, thinking about that, or is it the board thinking about it?

TC Well, the board and its finance and risk committee will think about organisational sustainability a lot. Generally, the board will spend a lot of time thinking about finances, revenue forecasts, are we on track, are we not. That's just human nature, it doesn't matter if you're very profitable or not, you want to know can you pay the bills. Because you can't do the missionary without the mercenary. If you haven't got the money you can't fulfil the mission.

So we call ourselves not for profit, but we are for profit, we have to make a profit, and that can be really challenging in this sector, and, you know, Macquarie Community College is not Robinson Crusoe in that, but it's the strategic risks, I think, which are the ones that we should pay more attention to.

EL What do you mean by strategic risk?

TC Well, one of our strategic risks – and I think it's probably universal – is the dependency on government funding. I mean, that is a strategic risk. As one of my board members says, one bureaucrat with a stroke of a pen can wipe out 100% of a particular revenue stream, and in the world of competitive tendering you really don't know whether or not you will win that business again. Whereas if you have thousands of people who put their hand in their own pocket as a fee-paying customer, that might be hard to get that revenue. But 1,000 people have to decide not to use your service, rather than one bureaucrat.

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So the strategic risk there is about the renewal of tenders, which sometimes depends on your ability to execute a contract and win a tender, and you've got to have enough resources, wherewithal and connections to be able to bid. So that big picture risk around your diversification of revenue streams, and therefore which markets you should service, and how can you afford to service them is the big strategy risk for us.

EL What about reputational risk? What is it?

TC Well there's two. There's, like the industry reputation, and sadly I do think that the vocational education and training industry has really taken a hit in the last couple of years, and some of that is around whether it is federal or government funded, the vet fee loans scandal didn't help, the prestige of going to university somehow has downgraded the prestige of getting a qualification at a vocational education and training level. They've all tarnished and damaged a bit of the reputation.

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EL How does an organisation…?

TC Manage it?

EL Manage that?

TC Yes, it's really tricky. That big environmental reputational risk is hard to manage, but what you do, I think, is you just do a really good job of making sure that you are only ethically recruiting students, that you are targeting the market that you can best serve, that you're supporting your students. If you meet the RTO standards of ASCLA [?], and you do it with a good heart, with good faith, and you're doing your best in the best interests of the students, you won't go wrong. It's when you try and do odd and weird things, to be more financially driven or volume driven or whatever driven that you will go wrong.

And the great thing about community colleges is there's really no rogues in this business. We deeply and passionately care about our students. So doing a good job is your best defence.

EL What about at a strategic and a financial level? What are some ways that boards can mitigate potential risks?

TC Look, I think on the financial level it's really important to build reserves. You do need rainy day money, it's absolutely essential. And that is really hard to do when, you know, margins are low, or funding is at risk. But you can't always spend all your profit. You've got to make a profit so that you can invest in the future.

The strategic risk is the hardest one, and again you've got to be connected – I think is really important – you've got to be thinking ahead what's over the horizon. In three years time, what's the market for yoga classes going to look like? Well, if we'd had that conversation in 2004, it would be different to the conversation in 2017. So that's a really good example of market risk, is, I think, in our big boom days we had 47 different yoga and Pilates classes running every week. Now we've probably got five or six, because there's 47 different yoga and Pilates studios within five miles drive, a five kilometre drive.

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So that is an inherent market risk: low barriers to entry, anybody can set up a yoga basically, there's a bit of a fad around, so we've got to think about whether we can still be a viable supplier in there, and what's our niche? So you've got to be aware of what people want to buy, and then offer it to them. I think there's, you know, the fermentation fad right now, you know, everything's kombucha and this and that, so you've kind of got to ride the crest of that little wave, but not necessarily hang on until it's gone all the way into shore.

EL Are there different risks that the board needs to manage versus what the CEO needs to manage?

TC Definitely governance risk. They are the board domain. That is not a management domain. The financial risks are managed by staff, if you like, but monitored carefully by the board. Strategic risks I think is a joint responsibly, and operational risk is totally staff driven. So operational risk about, you know, whether you've got – the minor level, have you got the right books in the right classroom for the students, are you printing certificates properly.

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And then there's kind of a crossover one around compliance, and contract risk, which staff manage but the board need to be monitoring. There's bigger picture risks around have you got the right infrastructure, have you got the right resources, the people risk, which are managed by the staff but should be on the radar of the board. And we might have a thousand risks we manage every week, but the board probably only need to watch 20 of them. And we have a regime of reporting, we talk about risks at management level, we talk about risks with staff on a day-to-day basis, but we report up only to the board around what of the key risks, and whether or not they're changing, and what we're doing about some of the mitigations. Or if new risks emerge.

EL What risks are the board liable for?

TC Well, they are ultimately liable for their fiduciary responsibly, it is making sure that we are trading solvently, that we are meeting the laws of the land, that we are not in breach of the law. So, for example, they don't manage, say, the lawful recruitment without discrimination of staff, but they need to make sure that we have policies in place that gets us staff recruited without any fear that there's any discrimination in that process. So their role is to ensure that the HR policies are rigorous and up to date.

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Work health safety we report monthly, on the risk profile, lost time injury, any incidents, and then we've got an escalating scale of what goes immediately to the board, you know, when would I ring the chair and say there's a problem, Houston? You know, it's a judgement call. But you certainly don't, as a board, want a CEO who wouldn't tell you there's a problem. It's better if you're told this is the problem and this is what we're doing to manage it, but, you know, transparency, at the level of detail that is required, is the most helpful to the board, and their person and professional responsibly.

I think they have responsibly to each other to be civil and polite, but they also ultimately – they're responsible to the moral owners of the organisation, which is a governance term, from Carver, is the board represent the moral owners, and in our case we have members, but the moral owners of our organisation is the community at large that we are servicing, and to a degree the government who funds us to provide services, and then the individuals who pay us for their fee for service courses.

So the board's role is to be responsible to make sure the organisation fulfils its duty to its mission and its clients and its funders, and it does it lawfully, ethically, with impact.

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EL Theresa Collignon, from Macquarie Community College. Now you'll hear from Phil Butler, not for profit sector leader with the Australian Institute of Company Directors. What is risk appetite?

PB So it's an interesting conversation about risk and risk appetite, and partially this came out of a lot of conversations that I had in 2016 where I heard observations that I wish my board could be a little bit more open to taking risk. What we found was that anecdotally many people thought boards of not for profits were risk averse, you know, they didn't want to be seen as the ones that had lost the money, or made the decision that went bad, because their reputation would be tarnished.

So we set out of delve a little bit more into that. We actually found that the risk appetite by boards was generally viewed as appropriate. In fact, what we saw more of was not for profits often operating in some of the most risky environments that you could possibly imagine, much more risky environments – perhaps not finally, but certainly operationally – than a for profit might like to.

EL Risk mitigation is really important, what sort of structures or strategies should a board have in place?

PB Critical part for risk for me is don't do up your risk matrix and then stick it in the top drawer until next time, that you actually have risk as part of your ongoing conversations, and as your organisation evolves, think about, well, what are the sorts of risks that we might be likely to face, now or in the future. And as we take on new projects, what are the sorts of risks we might approach, and then of course you go into those things of how big are the risks, you know, are they catastrophic if they occur, what are the things that we can do to perhaps minimise those risks.

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And at some point, do we actually stop doing what we're doing because we believe those risks are just too big.

EL Yes, that was my next question, are there different levels of risk?

PB Without doubt. If you go into the financial environment, perhaps it's a simpler way of thinking of things. So you can either keep your reserves in cash, you can keep them in term deposits, or you can go and put them in riskier, higher return investments. So that's a simple one to think about. But if you're going into someone who might have a mental health issue, and you're going in to look after that person, perhaps you're not quite sure what sort of environment you're going into, they're very different risks that you need to consider and think about, and use the expertise from within the organisation and on the board, as to how you're going to manage those risks.

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EL On the point that boards are traditionally risk averse, isn't that their role?

PB The board's role, in my mind, is to govern the organisation appropriately to meet its purpose. Now, a board could just keep on saying no to every innovation ever, and they've fulfilled their role of compliance, but it's achieved nothing in terms of performance. So as with all of these things, it's about striking the right balance, and knowing that, depending upon the type of organisation you're going into, what sort of risks are we prepared to take.

And that's not a science, it's an art form. You are just going to be continually juggling that conversation, because nothing stands still, there is always – society is changing, organisations are changing, so what would be considered to be an absolute no-no at one point, two years later might be firmly on the agenda of, well, yes, of course we're going to do that.

EL What happens if you're a director on a board that is risk averse, and, you know, not willing to change? What can you do?

PB What we're seeing more and more organisations do is having conversations about how effective the board and the organisation is. And good boards will have that conversation all the time. So a board that I was recently on, not only did we do an annual review, but we also reviewed each meeting. At the end of the meeting we just spent five minutes saying how did that meeting go? Have we achieved what we set out to achieve in the meeting? How is that meeting helping to achieve the organisation's greater purpose?

So that sort of reflection is really important. Now, not all boards are going to be comfortable in doing that, some might be set up to have a very old style structure that probably feels less comfortable in doing that, but that would be my observation – have regular reviews of the performance of the board, and individual directors, and feel comfortable enough with your fellow directors to have that conversation that says I actually disagree with what you're saying at the moment.

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EL And how often should a board be spending looking at their risk strategies?

PB As a great generalisation, boards don't spend enough time looking at their strategy. They spent too much time looking at operational type issues. So if you are considering, let's say the standard meeting of two or three hours, kick off early on the strategy side. Obviously strategy links to risk, the two go very strongly together. So bring that up the agenda so you can be talking about that while you're fresh, then go into more of the compliance based areas towards the end of the meeting. It would be, again, a generalisation, but I think if you've got your agenda structured to enable those strategic conversations to happen earlier in the meeting the better.

EL Phil Butler, not for profit sector leader with the Australian Institute of Company Directors. On the next episode of this series, Theresa Collingnon joins you again to discuss board effectiveness, along with Peter Johnston from Tamworth Community College and David Knowles from Coda [?] Capital.

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DK The role of the chair is to be the conductor, and the conductor is first of all to make sure that everybody is heard, to bring the whole thing together, and ultimately to finish the piece.

EL That's available now on the Community Colleges Australia podcast. This podcast is produced for Community Colleges Australia by Heaps Good Media, engineered by Miles Martignoni and produced and presented by me, Ellen Leabeater. This series has been produced with funding from the New South Wales Department of Industry. Thanks for listening. If you would like to know more, visit cca.edu.au.