Ulrich Hommel and **Ben Woods** argue that business schools should look beyond conventional risk management systems to the strategic build-up of organisational resilience

Creating the resilient business school

Business schools (and their parent universities) have made significant strides in recent years towards establishing sound risk management systems. They are more proficient in defining their appetite and tolerance for risk and are increasingly committed to building a decision-making culture around them.

Risk management responsibilities are usually centralised at the strategic level, allowing risk to be controlled where decisions are being made. Oversight and control perspectives have been refined to make them more judicious. The value of *ex ante* risk management (based on forecasts rather than actual results) is better understood by stakeholders generally and is helping to shape institutional governance. Hence, regular reporting on risks is nowadays more common and business schools are employing a mix of tools to assess individual exposures.

Schools are being encouraged and supported in their efforts by quality assurance agencies, most notably Australia's Tertiary Education Quality and Standards Agency (TEQSA). EFMD has been the first international accreditor to incorporate risk management into its quality standards (*EQUIS Standards & Criteria,* Chapter 7.d).

At the same time, there is an awareness that momentum is waning. Only a minority of schools have embraced corporate best practice and they often do so in piecemeal fashion. Budgetary allocations supporting risk management are rare, thwarting growth and shifting the burden on to overloaded managers.

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Given these resource constraints, there is a natural tendency to rely on processes that are already in place and are readily intelligible. SWOT (strengths, weaknesses, opportunities and threats) analysis and checklists are popular handrails but, too often, risk assessment stops there. Unsurprisingly, a pecuniary focus persists, with reporting synchronised with financial cycles. It is, however, a positive sign that a growing number of senior decision makers are uncomfortable with this situation.

To some extent, risk management is a victim of circumstance. Performance and risk management are closest when crises occur and businesses brace for a downturn. Herein, managing exposure is understood defensively as a means of protecting volatile revenue. As markets recover, the link between risk management and performance becomes more distant.

Brighter outlooks following the financial and sovereign debt crises have given institutions the confidence and freedom to re-engage in entrepreneurial strategies. Accordingly, business school leaders have been beguiled by increased business volumes and performance surpluses to the apparent detriment of risk management. Fortunately, only very few of them have so far been subject to outright and unexpected failure.

Conventional risk management encourages practitioners to focus on risks that occur in the pursuit of core competencies. These risks should be anticipated and reduced and any dependencies on peripheral risk factors offloaded.

This approach encourages the idea that risk can be subdivided. Yet recent experience has shown that macro risks impact all elements of the business of business schools.

Quality assurance frameworks, even when intelligently designed (such as TEQSA's risk assessment framework), lead to a standardisation of behaviour. Shared best practice is made up of a series of preferred responses that may not satisfy future threats or may build in systemic vulnerabilities. Common frameworks cannot help but make decision making less adaptive and less flexible (with EQUIS's non-prescriptive, holistic approach being a positive exception). Internal governance can then become easily ruled by a *de facto* compliance culture.

That institutions have some way to go is neither surprising nor a sign of negligence. A report in the *Financial Times* ["Why aren't business schools more business like?" 7 February, 2014] suggests that business schools are fallible precisely because they follow the dictates of good management (such as formulaic risk management).

Examples abound – computing, telephony, stock markets, photography – where the orthodoxy of "good" management created an

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immutable state of nature. In these examples the reliance on theory was comforting but unproductive because it obscured opportunities and provided false confidence in the *status quo*.

It would be reckless to propose precluding conventional risk management entirely. Business schools are increasingly entrepreneurial and this is obliging decision makers to bear more risk. A report by *Forbes* ["Classrooms of the Future", 13 December 2016] suggests that there is renewed commitment towards the overhauling of physical infrastructure. Many of the decisions involved could be enhanced by conventional risk management tools such as risk matrices, risk-based and activity-based costing, and other forms of statistical analysis.

Other risks are more opaque, mercurial and damaging. Of these, technology risk is the most endemic and its effects are spilling into the education space at an exponential rate. Most notably, digitisation has spurred the disembodiment of knowledge and many schools have capitalised on this. Though hallowed names may be leading the charge, middle and lower-tier schools will be experiencing a time of unparalleled competitive equality.

However, disintermediation is changing the dimension of the space in ways that were not foreseen. Traditional value drivers (for example, "excellence in teaching" following "excellence in research") and core competencies are in flux as a result. Without the ability to clearly distinguish between opportunity and threat, all uncertainties begin to look as if they matter. Hence, the complexity of the situation is increasing the cost of modelling and decreasing the value of the results.

When viewed through the lens of traditional risk management, the picture is one of increased vulnerability. Managers would be forgiven for adopting a defensive posture but it is clear that business schools cannot forego growth. Instead, schools are likely to intensify competition in the pursuit of scarce revenue without changing their business model. Meanwhile, cash flow volatility will increase as bullish strategies give way to bearish realities.

In this context, entrepreneurial business schools face the danger of becoming over-exposed to risk. If educational institutions do not profit from the business logic of using risk management to optimise the allocation of resources then perhaps they might benefit from a developmental concept of using slack resources to contain risks.

Organisational resilience is the answer.

Resilient organisations can evolve at the same pace as their environment. The connotations are positive: organisations capable of withstanding shocks and learning from their experiences in order to increase profitability in the long term. This responsiveness is a product of leadership and culture, augmented by networks of resources and a proactive attitude towards change (see the *Resilience Expert Advisory Group's Good Business Guide*, 2016).

For business schools, embracing resilience means empowering faculty, administrators and leaders to use their judgement, experience and talent in the long-term interest of the institution, a sentiment that is at the heart of the academic value system.

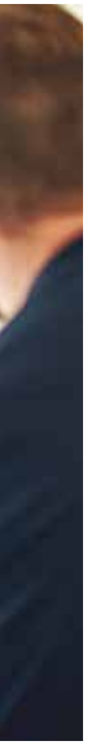
Business schools are intuitively aware of the attributes and indicators of resilience but have yet to appreciate them as mutually supporting aspects of a holistic way to create and protect value. There are many positive examples of schools that have built research networks, collaborated on degree provision and worked alongside non-academic stakeholders to produce high-quality research that is available to students and has a positive impact upon society; routinely, co-operative relationships break down silos, pool knowledge and generate new internal resources.

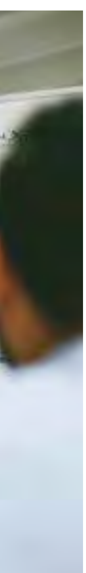
In times of stress, these partnerships demonstrate their importance in different ways. The good will and trust that exists between network nodes may form the basis for *ad hoc* arrangements during a crisis. Business schools that can draw on partners to provide resources are likely able to maintain acceptable service levels, thereby limiting reputational damage.

Business schools that are perceived by stakeholders as competent crisis managers are likely to benefit from increased credibility and experience a confidence boost that strengthens business as usual. Recognising these benefits encourages leaders to formalise agreements in advance, making networks even more productive.

Deans are conscious that business schools need to react to market events but it is challenging to do so quickly. Noisy surroundings hamper early warning because signals are masked or misinterpreted. This means that, at best, opportunities are perceived late but, at worst, risks are missed and become threats that spread.

Being change-ready is thought to improve the ability of an organisation to seize an upside but





also to react to downside risk. This begins with faculty, administrators and leaders understanding what a school's priorities are. Contingency planning and stress testing are important tools in this regard because they help schools to be prepared for general events and build the capacity to react to future unspecified scenarios.

Considering how a scandal might affect an institution is just as fruitful as spending time on mapping out what to do if there is a sudden surge in demand. Business schools should ideally have a wealth of data to support these processes (admission records, student satisfaction and teaching evaluation, class attendance, workload, rankings and accreditation feedback and so on). They provide discrete signals that can be aggregated for the purpose of early warning and long-term planning.

Resilience encourages deans to foster a culture of decentralised decision making. Resilient schools are thereby able to monitor and react to risk at the source without losing focus and/or feeling that their autonomy has been unnecessarily challenged by their parent organisations. The results are quick, creative and innovative responses to opportunities and challenges that might otherwise have been missed.

With so many business schools engaging in imitative strategies and destructive forms of competition, the ability to break strategic lockstep will be a discernible advantage. Customers will likely react positively to schools that offer services that are constantly improving to meet their needs, and therefore represent a better return on investment. Hence, pushing decision making downwards may help to avoid the inertia of success and improve performance at the same time.

External governance can play a productive role in nurturing a culture of resilience. By incorporating resilience in to best practice, accreditation agencies could improve risk detection and situational awareness at the individual and collective levels. This might include using thresholds to understand risk tolerance, and network analysis to identify hubs. Oversight is made more relevant and more efficient in the process.

Resilience also teaches us that competence in one period increases the probability of observing competence in the next.

Traditional risk management predisposes practitioners to think of survival to be a matter of financial slack; and to some extent that remains true. However, having a sufficiently deep war-chest, so that crises can simply be weathered, does not indicate organisational resilience.

Being able to emerge from an extreme external or internal shock is the hallmark of resilience. Studies of crisis management show that those institutions that act decisively to deploy resources, and understand resources in broader terms, are fitter in the long-term.

Going forward, the richness of resources and the willingness to spend them may be the key input into the Darwinian formula that differentiates between resilient and vulnerable institutions. This insight will also impose natural restrictions on the ability of parent universities to demand and seize budget surpluses.

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