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Risk Analysis

.... in the Service of
Change Management

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University Reform Finland

- A New University Act currently debated in the Parliament
- It will further extend the autonomy of universities by giving them an independent legal personality either
 - as public corporations, or
 - as foundations under private law.
- At the same time, the universities' management and decision-making systems will be reformed.
- Concurrently, three mergers will take place
 1. Aalto University (Helsinki University of Technology, Helsinki School of Economics and University of A&D Helsinki)
 2. University of Eastern Finland (U's of Joensuu and Kuopio)
 3. New University of Turku (University of Turku, Turku School of Economics)



University Reform Finland - objectives & key impacts

The purpose is for universities to be better able to:

- react to changes in the operational environment
- diversify their funding base
- compete for international research funding
- cooperate with foreign universities and research institutes
- allocate resources to top-level research and their strategic focus areas
- ensure the quality and effectiveness of their research and teaching
- strengthen their role within the system of innovation



University Reform Finland

- main changes

- Independent legal personalities, no state guarantees nor approval
- Detached from the development of state administration
- Universities as employers, staff no longer civil servants, recruitment, HR policy
- Latitude in the management of finances, capital, investments, donations, business activities
- New governance structure, internal collegium in control, more external board members, board overtakes state responsibilities, rector accountable to board
- Tuition fees for non-EU/EES students possible

No change

- Freedom of research and education
- Education free of charge
- Obligatory student union membership
- Democratic representation of staff and students



University Reform Finland

- process

- Background
 - Initiative by the Universities, expressed throughout the 2000's
 - Industry wants to launch a new top university
- Political engagement
 - Government 2003-2007 (Centre, SDP, SwFP)
 - Appointed reviewers Niilo Jääskinen och Jorma Rantanen 12.1.2007
 - Government Progr. 19.4.2007 (Centre, Cons., SwFP, Greens)
 - Development Plan for Education and Research 2007—2012
- University Reform
 - Preparation of the Act began autumn 2007, with universities
 - Call for opinions on the draft , DL 15.10.2008
 - University Foundations (for Aalto and Tampere TU) by autumn 2008
 - Government Bill to Parliament 20.2.2009
 - Committee handling (Constitutional Law Committee)
 - Law to be approved by the end of June 2009
 - Organisation of the new universities begins autumn 2009



Change and Risk

– how connected to each other?

- Risk – anything that prevents achieving desired objectives
 - Any negative event or unrealized positive event
 - Rise from business environment, internal events, incomplete or incorrect information used in decision-making
- The University Reform – What Kind of a Change is it?
 - External necessity imposed by the politicians
 - Chance, coincidence, something to be survived
 - Internal process reflecting strategic goals
- Then, how risk is connected to change?
 - Insurance (how to counterbalance negative impacts)
 - Check up (how to understand and minimize chance losses)
 - Assistance (how to improve the process and gain benefits)



Tools to manage business risks in the Finnish Universities

- Several risk management tools in use
 - Corporate governance – detailed and legal emphasis
 - Management by targets and outcomes – policy steering, statistics
 - Internal control and auditing - pro forma, financial, often outsourced
 - Work safety – security, welfare
 - Quality management – assessments, quality assurance systems
- Esa Ahonen: Universities amateurs in protecting themselves and lack courage to take calculated business risks
- However, all Finnish universities have conducted risk analysis
 - At least once since 2000, most repeated in 2008/2009
 - Typically responsibility / initiative of HoA, CFO, internal auditor (> < Board)
 - Risk analysis is often a detached process, outlining critical probable and relevant business risks
 - Typically includes subjective evaluation of the top managers in a coherent framework – the value added?



Need for risk management?

- Traditional risk management – academic senate – does not apply any more? Professional leadership – more complex understanding of risks
- Art University or any small institution – easy to make dramatic changes... too subjective?
- To manage all business risks in one framework using professional methodology?
- Reflecting the changing role and raise of new activities
 - Strategy, profiling, competition
 - IPR, patenting, sponsorship
 - Legal personalities without state guarantees
 - Boards with external members and financial resp.
- Risks of the University Reform analysed in a Risk Management Process at least by:
 - University of Helsinki, Helsinki School of Economics, Aalto (process beginning), University of Jyväskylä, Theatre Academy



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(1) Background

- Previous risk analysis in 2004
- COSO ERM analysis and statement annually by rector and head of admin
- Now 2009 a new process launched
 - To identify and verify the objectives TA has set for the University Reform
 - To identify the risks threatening TA from achieving these objectives
 - To build common understanding of the objectives for the reform
 - To build common understanding of the most relevant risks
 - To appoint risk owners for the most relevant risks
 - To create action plan to manage the risks

 - Together with Deloitte & Touche Finland



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(2) Process (designed by Deloitte)

- Phase 1 Preparation (targets and methodology)
- Phase 2 Preliminary risk identification
In-depth risk identification by interviews
Development of risk descriptions
- Phase 3 Risk assessment by voting in workshop
- Phase 4 Root cause and scenario analysis
- Phase 5 Reporting
- Then Discussion of results
Defining measures



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(3) Targets (set by leaders)

In the university reform WE WANT TO:

- 1) promote stronger artistic-pedagogic leaderships
- 2) develop professional administrative and support services
- 3) operate functionally with future-orientation and leanness
- 4) realise the hidden potentials
- 5) guarantee economic sustainability and responsibility



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(4) 42 risks perceived (in interviews by Deloitte using their risk bank; + =>)

- **Effectiveness and efficiency risks**
 - + Development of core activities, strategic choices, acquisition
 - Product and service development, projects, research
- **Asset and property risks**
 - + Insurance, asset management and investments, property management
- **Staff and skills risks**
 - + Staff competence, staff availability, employer responsibilities
 - Staff health and safety
- **Strategic risks**
 - + policy, state-univ relations, availability of core and external finance
 - competitors, societal expectations, client needs
- **Corporate governance deficiency**
 - + Leadership (board, rector, departments, general), collegium, checks and balances, change climate, communication
 - Rewards
- **Financial risks**
 - + Liquidity
 - Own capital, credit loss
- **Steering and information risks**
 - + Contract portfolio management, kpi, internal reporting, organizational structure, short and long term planning, follow up, cost awareness
 - Pricing, resource allocation



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(5) Most relevant risks (interviewees by voting)

- Development of core activities
- Cost awareness
- Long-term planning
- Availability of budget funding
- Availability of staff
- Asset management
- Liquidity
- Staff competence
- Leadership / Board
- Delegation of power and responsibilities
- Leadership / Rector



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(6) Risk families (analysed by Deloitte)

Risk families

- 1) Resource-related risks
e.g. availability of public funding, raise of external funding, long-term planning, awareness of costs and cost structure)
- 2) Leadership-related risks
e.g. board member competencies, role clarifications, division and delegation of power and concrete communication of the change)
- 3) Competence-related risks
e.g. finance, investments, fund-raising, recruiting or buying services, strategic HR-policy
- 4) Risks related to the development of core activities
e.g. shared strategic vision, open discussion, shareholders involvement, emphasis on administrative change, dept-level involvement, aligning ext funding to core values



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(7) Measures

(set internally with the board)

- Resources (CFO)
 - resource allocation principles, fund-raising, cash flow prognosis, asset policy, budgeting and reporting tool, investment plan
- Leadership (HoA)
 - Competence of board members, freshman course, leaner decision-making processes in new statutes, open communication
- Competence (HRO)
 - New HR-policy, recruitment procedure, career development and tenure, staff well-being
- Core activities
 - New strategy, strategic steering, new academic councils, professor involvement, Berlin seminar, art university and profiling, stakeholder enquiry



Place for Risk Management?

- Do we understand what changes... out of necessity?
- Do we have "any" goals of our own in this change?
- Do we understand where the risks, dangers & potentials lie? Or are there any?
- Do we agree on risks? On relevance? On probability?
- Who knows best? Random guesses or experience speaking?
- Is there anything we can do about this in advance? To avoid? To minimize?
- Who is responsible for these measures?



Mid-term evaluation totally subjective by the HoA

- Gains
 - Professional expertise and methodology in use
 - Made us work and discuss
 - Joint understanding and prioritising brings commitment
 - From negative details to positive measures
 - We get autonomy – for what?
- Doubts
 - Too expensive?
 - Shows topics we feel are important, are they?
 - Measures – are they the right ones?
 - Sense of control... too strong?
- FINALLY
 - I would definitely do this again



Thank you for your attention!
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