

The 16th APacCHRIE Conference

Innovation and Sustainability

Conference Proceedings

May 31-June 2, 2018

Business School , Sun Yat-sen University

Guangzhou, China



Innovation vs. Risk – getting the balance right in higher education

Peter Ryan* and Clive Smallman

Higher Education Leadership Institute, Sydney, Australia

*Corresponding author: pryan@heli.edu.au

Keywords: governance, innovation, quality, regulation, risk management.

Introduction

All organisations face internal and external factors that create uncertainty whether they will achieve their objectives (NACUA, 2010). To reduce that uncertainty, the modern regulatory environment places a heavy emphasis on risk and risk management (Power, 2004). This is true for all organisations, but is especially relevant to highly regulated organisations such as higher education providers, including those that deliver courses in hospitality and tourism. The quest for regulatory compliance will necessarily seek to minimise risk. But does a preference for risk mitigation consequently stifle innovation?

This paper proposes a model for classifying risk that maintains a balance between innovation and risk to maximise innovation while appropriately mitigating risk in a highly regulated environment.

Literature Review

There is a functional and political need to maintain the myths of control and manageability through risk management (Power 2004: p.10) which has led to what some refer to as the “new regulatory state” (King, 2007). Australia’s higher education regulator, TEQSA, uses its own bespoke risk assessment framework to “identify potential risks of non-compliance” in the organisations it regulates (TEQSA, 2016). While Australia is considered the first country to formally embrace risk assessments in its higher education quality assurance system (Padro, 2015) other jurisdictions are following, with recent developments in the UK where regular institutional reviews are being replaced by an outcomes risk-based system (Grove, 29 June 2015). Similarly, New Zealand’s Tertiary Education Commission deploys a “risk management and assurance system” (TEC, 2015).

Each of these systems conforms to an orthodox homeostatic risk management paradigm (Smallman, 2000) that relies on institutions setting pre-determined risk tolerances, which are converted into quantified decision rules. This approach to pre-set tolerances may stifle innovation by limiting the breadth of rationality and cultural variety through which targets are set. Homeostatic regulation is very much accepted by those in positions of regulatory power, while the regulated frequently view ‘official’ settings as just plain wrong (Hood, 1996: 213) and a weak approach to risk management (Smallman & Smith, 2003).

As Culp (2013) has noted innovation and risk management seemingly do not naturally go hand-in-hand, so how do we manage the perceived notion that innovation necessarily increases an organisation’s risk profile? Furthermore, how do we ensure that innovative education practices do not result in an unfavourable risk assessment, thereby warranting closer scrutiny from regulators than might otherwise have been the case?

We argue that a much more nuanced approach to risk regulation is required, drawing on the established notion of the ‘collibrational’ risk management paradigm (Hood & Jones, 1996;

Royal Society Study Group, 1992; Smallman, 2000).

Methodology

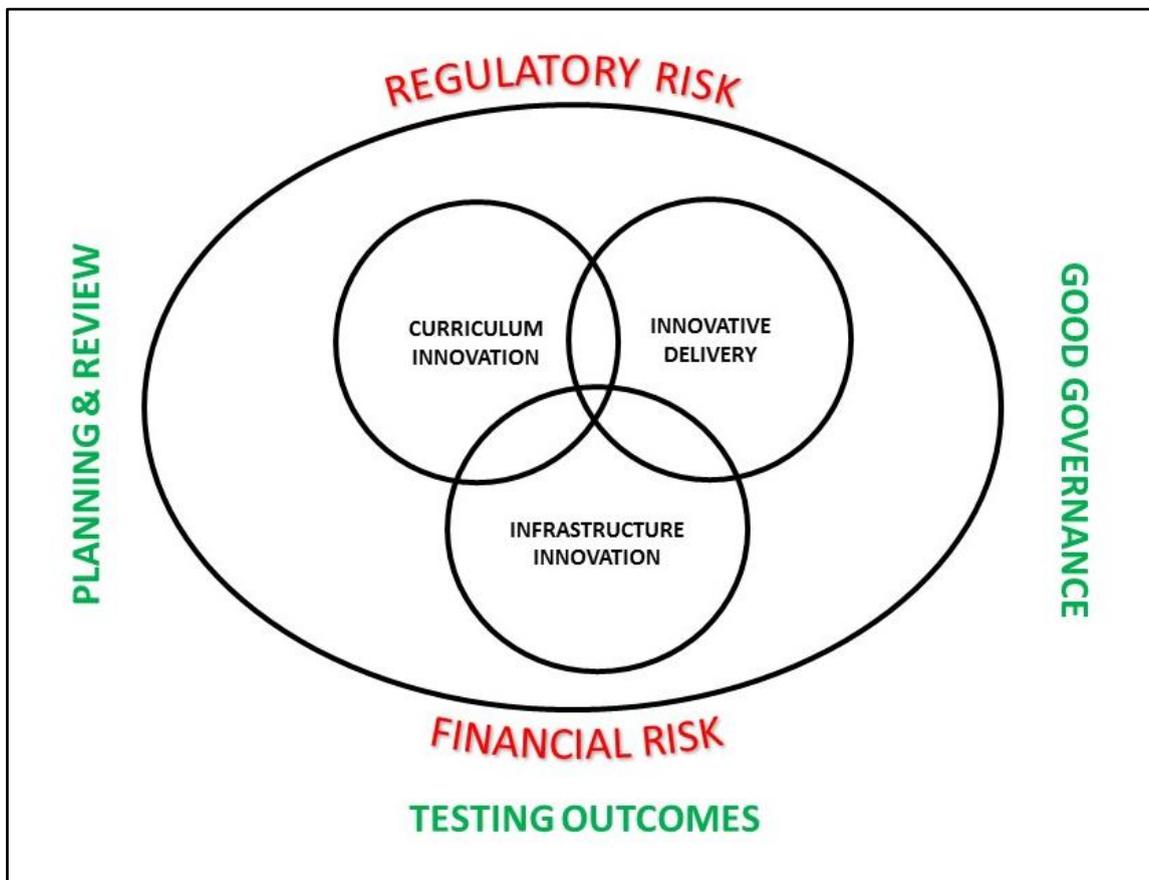
A series of round table discussions formed the basis of deliberations during the International Centre of Excellence in Tourism and Hospitality Education (THE-ICE) International Panel of Experts (IPoE) held in Melbourne, Australia in November 2017. This paper represents further work extrapolating the initial findings of one of the groups charged with exploring the trade-offs between designing innovative systems that develop academic excellence against regulatory compliance. The group consisted of senior managers and academics from a number of higher education providers representing a range of countries, including Singapore, Netherlands, Switzerland and Australia.

Through a process of considering the key areas for innovation common to all higher education providers and the factors that mitigate risk, a model of categorising and managing risk in the higher education sector was proposed.

Results

Higher education providers face the same set of risks as other organisations, but in their own unique context of delivering higher education courses to various cohorts of students. Based on the methodology outlined above a proposed model for analysing and managing risk in innovative higher education providers has been developed as shown in Figure 1 below.

Figure 1: A model for analysing risk in innovative higher education providers



Discussion

The proposed model for analysing and managing risk in innovative higher education providers has three facets: the three areas where internal risk and innovation intersect; two broad categories of risk; and three risk management strategies.

The model shows that internal risk in higher education providers can be broken down into three broad areas: curriculum design, delivery methodology, and the infrastructure to support staff and students (including physical premises, academic and non-academic staff and virtual infrastructure). Innovation is a necessary element in each of these areas to embrace new trends and opportunities in learning and teaching. In curriculum design there may be innovative models that incorporate compressed timeframes, micro-credentialing or other points of difference that challenge established frameworks for course structure. Course delivery could involve enhanced opportunities for work integrated learning and new models of virtual and blended learning that challenge the status quo. An institution may consider that its physical infrastructure is becoming less important while its virtual infrastructure takes a much higher priority.

Risk is broken into two interlinking categories: regulatory risk and financial risk. While financial risk forms a part of the overall regulatory risk assessment there is a much broader remit to maximise the financial viability of an organisation, whereas the regulatory aspect of financial risk only deals with adequacy, as opposed to optimisation.

Finally, the model posits three strategies to balance innovation and risk. The first of these involves a robust governance framework that provides independent oversight of risk. This will usually encompass a tripartite model encompassing the corporate governing body of an institution working in concert with the academic governing body and a dedicated audit and risk committee to analyse risk, assess the impact and probability of each risk identified and put in place appropriate mitigation strategies to minimise those risks. This model externalises the oversight of risk management so that those overseeing risk management are removed from the day-to-day hurly-burly of operations. Furthermore, when senior management propose innovative strategies they will be rigorously tested by the triumvirate ensuring that the proposed innovation does not outweigh the perceived risk.

The second strategy involves comprehensive planning for any innovative strategy that is deployed to maximise its success quotient and thereby minimise risk. The model recognises two important facets of planning, the initial plan and subsequent regular review to validate that the plan is indeed working.

The final strategy involves constantly testing operational outcomes. If innovation causes a deterioration in an institution's key metrics then the institution's risk profile may suffer as a result. For example, an innovation in course delivery may result, albeit temporarily, in a decrease in student success and a corresponding increase in student attrition. It is imperative that systems are in place to measure and report student outcomes regularly and ensure that any negative sequelae can be quickly and judiciously addressed. This is highly attuned to the collibrational risk regulation paradigm as it requires real-time data, observations and discourse rather than being focused on pre-set targets.

It is proposed that such a model, when deployed in a higher education setting will assist in finding a comfortable balance between innovation and overall risk, and as a consequence ameliorate regulatory and financial risk.

Due to the limitations of the small cohort of higher education practitioners that took part in designing this model it is recommended that future research further tests this model of risk management in various higher education settings. This could be through a series of case

studies that investigate the nexus between innovation and risk in a diverse range of higher education providers.

References

- Culp, S. (2013, January 7). Risk Management Can Stimulate, Rather than Deter, Innovation. Forbes Leadership Blog. Retrieved from <https://www.forbes.com/sites/steveculp/2013/01/07/risk-management-can-stimulate-rather-than-deter-innovation/#19b1a28b50d3> [22 February 2018]
- Grove, J. (2015, June 29). Quality assurance to face overhaul: New system to 'put student needs at the centre'. *Times Higher Education*. Retrieved from <https://www.timeshighereducation.com/news/quality-assurance-face-overhaul> [23 February 2018]
- Hood, C. C. (1996). Where extremes meet: "SPRAT" versus "SHARK" in public risk management. In C. C. Hood & D. K. C. Jones (Eds.), *Accident and Design. Contemporary Debates in Risk Management* (pp. 208-228). London: UCL Press.
- Hood, C., & Jones, D. K. C. (Eds.). (1996). *Accident and Design. Contemporary Debates in Risk Management*. London: UCL Press.
- King, R. P. (2007) Governance and accountability in the higher education regulatory state. *High Education* 53, 411-430.
- National Association of College and University Attorneys (NACUA). (2010). Risk Management in Higher Education: A Guide to Building Effective Compliance and Risk Management Programs and Counsel's Role. Virtual Seminar. Retrieved from <http://www.higheredcompliance.org/compliance/resources/December2010VS.pdf> [22 February 2018]
- Padro, F.F. (2015). *Which is better for embedding risk management in higher education quality assurance: ISO 31000 or the COSO framework?* Conference paper from proceedings of the 18th QMOD-ICQSS international conference on quality and service sciences, Seoul, Republic of Korea. Retrieved from <https://eprints.usq.edu.au/28688/3/18%20QMOD%20ERM%202015%20paper%5B1%5D%5B1%5D.pdf> [23 February 2018]
- Power, M. (2004). *The Risk Management of Everything: Rethinking the politics of uncertainty*. Demos: London.
- Royal Society Study Group. (1992). *Risk: Analysis, Perception and Management*. London: Royal Society.
- Smallman, C. (2000). Challenging the orthodoxy in risk management. In E. Coles, D. Smith, & S. Tombs (Eds.), *Risk Management and Society* (pp. 53-79). London: Kluwer Academic Publishers.
- Smallman, C., & Smith, D. (2003). Patterns of managerial risk perceptions: exploring the dimensions of managers' accepted risks. *Risk Management: An International Journal*, 5(1), 7-32.
- Tertiary Education Commission (TEC). (2015). Statement of Intent 2015/16-2018/19. New Zealand Government. Retrieved from <http://www.tec.govt.nz/assets/Reports/Statement-of-intent-2015-2019-2.pdf> [23 February 2018]
- Tertiary Education Quality and Standards Agency (TEQSA). (2016). *TEQSA's Risk Assessment Framework*. Australian Government: Melbourne. Retrieved from <https://www.teqsa.gov.au/sites/g/files/net2046/f/risk-assessment-framework-v2-1.pdf?v=1507171079> [22 February 2018]