

RISK MANAGEMENT IN THE UNIVERSITY ENVIRONMENT

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Abstract

In this article we try to find an answer to the question of whether the concept of risk is compatible with the academic environment. Universities are organizations that have a very special mission - to ensure the future of the country with competent people, capable of leading institutions, but also countries as a whole. We show that universities are, in fact, complex organizations that operate in a turbulent environment with multiple challenges that they have to face. Indeed, risk is an integral part of the existence and therefore the management of organizations. Thus, whether we realize it or not, risk-taking is consubstantial with everything. Since taking risks is inevitable, there is no other way to increase the chances of success in the decisions made than to study the risks, in their two variables, namely their probability and their impact, in order to manage them properly. So, for a university it is vital to have a risk management strategy, which would allow us to have a complex and systemic view of all the risks that threaten the university and allow us to think of appropriate risk response strategies.

Key words: *change; higher education management; risk management; risk response; strategies.*

JEL Classification: *I23; I25; M21.*

I. INTRODUCTION

Universities are among the most conservative types of organizations. The history of some of them is almost a thousand years old. However, the environment in which universities operate is constantly changing. The university's mission is to train highly qualified specialists by carrying out educational and scientific research programs, thus making a significant contribution to the development of society. On the other hand, the university is an organization with a complex and specific internal environment, which operates in a constantly changing external environment. In this turbulent environment, the university has not only a passive role of adaptation, but also an active role of generating changes. Today, higher education institutions are constantly challenged to face the growing competition, due to the demographic situation, labor market requirements, changing values and attitudes towards higher education by the younger generation, etc. (Cotelnic, 2021, P. Rathnaswamy et al., 2022) To succeed in these conditions, higher education institutions must use the opportunities and adapt to the market by innovating traditional structures, so as to capitalize on the opportunities and limit the threats that come from their competitive environment (M. Maciejczak, 2016). For the timely and qualitative achievement of the objectives drawn by the universities, the need to take into account the risks is imposed, the materialization of which could make this process difficult.

The purpose of this study is to provide detailed explanations and discussions on the importance of risk management for higher education institutions, to highlight the factors that lead to the emergence of risks, as well as the benefits that universities can obtain, if risks are identified and properly managed.

II. METHODS

To achieve this goal, a set of methods was used which included, in particular, the analysis, comparison, classification and review of the specialized literature, of the content of the websites of some universities in the field of risk management.

1. The concept of risk and academia: are they compatible?

There are opinions that the concepts of risk and the academic environment are at different poles, being very far from each other. The university is seen as a haven (Raanan, 2018) for deep thinking, contemplation, leisurely walks with colleagues while discussing philosophical matters, sophisticated theories and ideas, interspersed with a few hours of training young minds and agers of future leaders, managers, philosophers, writers, etc. The notion of risk seems irrelevant in such an environment, and the normal association of risk is with extreme sports, deviant behavior or the business world. But the truth is different. The university campus is

subject to various physical hazards, such as fire or flood, which, with all its technical sophistication, it still cannot avoid. Today there are virtual threats like hacker attacks, social media chatter turning into chaos. Both types of risks can cause great damage to institutions both financially and damage reputation, and getting back to normal takes a lot of time and effort.

Risk is an important component of life, being present in any field, any activity. "Zero risk does not exist" (S.Larger, D.Carassus, 2010). Obviously, universities are no exception. Moreover, it is widely recognized that higher education institutions face a number of strategic and operational risks. However, risk management practices in many universities appear to be significantly less developed than in the corporate sector. This is possibly due to the fact that the mechanisms and processes specific to university management make it more difficult to implement risk management practice at the level of the entire institution. At the same time, the COVID-19 pandemic demonstrated the need and usefulness of these tools, accelerating the process of adopting risk management as one of the key tools to help rethink and reshape universities' survival and sustainability strategies. The pandemic has exacerbated the risks higher education already faced, including rising costs, uncertainty about funding and statutory support.

Regarding the definition of risk, there are many discussions, multiple researches have been carried out, various interpretations are offered. A more general definition is provided by the ISO 9001:2015 standard, according to which risk represents the effect of uncertainty on objectives, and by risk/opportunity is meant the element of uncertainty that can affect the performance of an activity that leads to the achievement of an objective. Higher education institutions are exposed to a wide variety of risks, including due to the constantly changing environment in which they operate. Financial austerity, increased accountability, changing government policy, cyber security, reputation and quality assurance are some types of risks specific to universities.

2. Risk classifications in the university environment

The complexity of risks determines the multitude of their classifications. The activity of higher education institutions is no exception. There are several attempts to highlight different groups of risks specific to the activity of universities. Thus, we find the classification of risks in several categories, based on the basic activities specific to a university (Raanan, 2018): research risks, teaching, quality, etc. The mentioned author groups risks both according to specific fields and according to distinct activities to which external risks are added, such as political risks, legal risks, competition risks, etc.

It is of crucial importance to identify all risks (Ruzic-Dimitrijevic, Dakic, 2014). They must be classified in a certain way. Huber's (2011) work with English universities has shown that it is possible to find a wide variety of ways of grouping and classifying. Frequently, risks are ranked according to the severity of the impact on the university. Financial and reputational risks topped these lists. In some cases risks are grouped according to areas of responsibility or functionality; others differentiate risks into core, organizational and external. The main risks are related to teaching and research. Organizational risks are assigned to the insurance management activity with those necessary for the teaching and research activity. External risks are beyond the influence of universities.

Another alignment of academic risks involves their classification into isolated, repeated and systemic risks (McDonald, O'Byrne et al, 2020). The authors not only characterize each of the highlighted risks, but also mention what the response to this risk should be.

Isolated academic risk, according to the authors, is a single or isolated incidence (either deliberate or accidental) that occurs in a manner that is unlikely to be repeated by the same person or by other people. In this sense, isolated academic risks are similar to quasi-random events, which will effectively correct themselves and require no further action.

Repeated academic risk represents a repeated incidence, either by the same person or by other people (deliberate or accidental), which implies that its repetition cannot be considered as limited, but neither systemic. So, the measures that will be taken must ensure that this risk will not become a systemic one.

Systemic academic risk is a repeated incidence, either by the same individual or by other individuals (deliberate or accidental), that indicates a continuous or recurring cycle of occurrences at a systemic level within the university. This type of risk requires immediate action at the appropriate management level to be corrected.

Risk involves the threat of losing certain values (Aetdinova, Chorosova&Maslova, 2020). There are two approaches to understanding the term "risk". On the one hand, risk is the likelihood or threat of damage and loss. However, losses are not always of a quantifiable nature (Maslova, 2019). These may be losses of emotional balance or social status. For universities, losses could be expressed in potential students, income from educational and innovation activities, reputation and image, losses resulting from unsuccessful scientific research, loss of accreditation by the university (Toma S., Alexa I., Sharpe D, 2014) . On the other hand, risk is uncertainty, which affects objectives. Uncertainty is difficult to measure and evaluate, but it is a condition that accompanies risky situations and cannot be completely eliminated. In the higher education system, which is part of the sphere of services, one can isolate the uncertainties related to the quality of education, the results of scientific research, student enrollment, education policy, socio-economic.

A research carried out in the field addressed by us (The Landscape, Framework, and Strategies for managing & mitigating risk, 2018) presents the following types of risks specific to a university:

- ✓ Strategic risks: Risks related to an organization's ability to achieve its goals.
- ✓ Financial risks: Risks that could lead to the loss of assets.
- ✓ Operational risks: Risks that affect the institution's ability to do day-to-day work, including training.
- ✓ Compliance risks: Risks involving non-compliance with externally imposed laws and regulations, as well as internal policies and procedures.
- ✓ Reputational risks: Risks related to the university's image or reputation.

Of course, there are other risks than those placed on this list, but the point is clear: higher education institutions face many risks and should be prepared to deal with them. A very poignant observation, true in all management and leadership situations, is that a risk, once identified, is no longer a risk - it is a management problem.

3. Implementation of risk management in the university environment

Risk identification is only one stage, albeit a very important one, of the entire risk management process. Risk management is the key to effective strategic management of any organization (Carmichael, 2016). Most often, risk management refers to the management of risk exposure and encompasses all aspects of the organization's strategy and operation, so risk management becomes critical to the success of the university. (Mukherjee, 2019).

The implementation of risk management in higher education institutions improves communication between different departments and supports the efficient use of institutional resources. Furthermore, the risk management process maintains continuity in the institutional improvement plan and improves an institution's ability to achieve its goals and focus on internal audit (Harmali Z, Almaskari Z, 2021). At the same time, there is no univocal understanding regarding what would represent risk management in the academic environment. Some universities equate risk management with crisis management or associate it with compliance risk. Other institutions focus on "managing downside" rather than seeing risk as an opportunity. Others equate risk management with minimizing dangers, especially those resulting from non-compliance by higher education institutions with external normative acts, which regulate their activity. It is believed that there is nothing wrong with these views on risk management. But there would be more to gain by approaching risk from the perspective that also seeks to identify and manage the advantages that risks offer and see the many opportunities that they present. A balanced view of risk is best, one that seeks to minimize hazards, influence and control uncertainties, and manage opportunities (Cassidy D. et al, 2000).

Arguing the positive effects presented by the identification and proper management of risks in the academic environment, it follows that universities should be aware of the need to implement risk management in order to achieve the established objectives. The risk assessment methodology is the same in all areas and should include the following steps, which are very well listed in the ISO 31000:2018 standard (Figure 1)

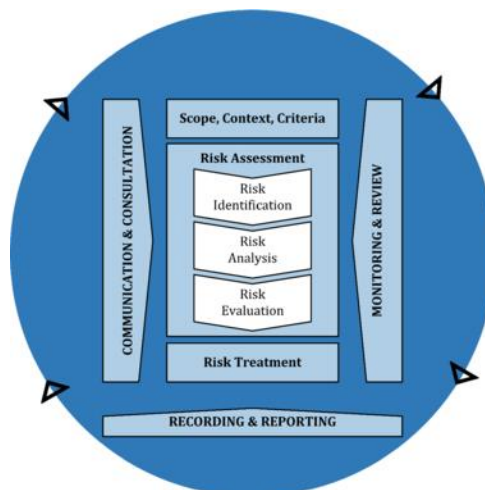


Figure 1. The risk management process

Source: <https://www.iso.org/obp/ui/#iso:std:iso:31000:ed-2:v1:en>

III. CASE STUDY: IMPLEMENTATION OF RISK MANAGEMENT IN THE ACADEMY OF ECONOMIC STUDIES OF MOLDOVA (ASEM)

The Academy of Economic Studies from Moldova, a higher education institution, realizing the importance of the risk management process in the development of the institution, developed and implements the risk management strategy. We believe it is important to develop this valuable document to identify and manage the multitude of risks associated with achieving the university's goals. Strategic risk management differs from traditional approaches that focus on risk oversight through the disparate management of risk or hazard areas and focuses on addressing key institution-wide risks that may affect the university's ability to achieve its goals.

The development of university risk management followed the following steps (Figure 2):

Step 1: *The working team was formed.* This step is considered to be very important, because the quality of the developed strategy also depends on the competence of the team members. The following personnel categories were included in the team:

- ✓ Teachers, who take the Risk Management course, are internal auditors of the Quality Management System, have at least 15 years of work experience in ASEM, so they know well all the internal processes;
- ✓ Heads of subdivisions, who know very well all the possible dangers that could block the achievement of objectives at the subdivision level.
- ✓ Some of the people involved also participated in the development of the ASEM Strategic Development Plan for the period 2018-2022 and in the development of the Quality Assurance Strategy within ASEM for the period 2022-2026.
- ✓ The president of the team was the Rector of ASEM.

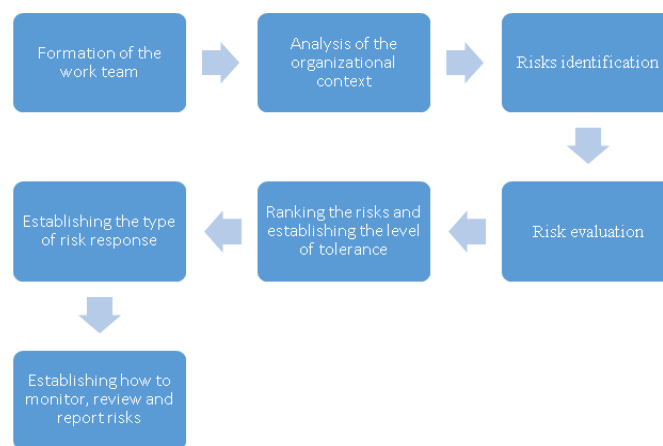


Figure 2. Stages of risk management development at ASEM

Step 2: We started by *establishing the organizational context.* At this stage, the internal and external environment of the institution was analyzed, the SWOT analysis was carried out, the factors with major influence on the institution's activity, the main dangers and threats were highlighted. These were of great help in identifying the main types of risks.

Step 3: *Risk identification.* During this stage we identified the risks and recorded their characteristics. Risk identification involves identifying the source of risk, i.e. determining the situations or events that may have negative consequences on the university's activity. I identified and defined the risks in relation to the objectives, the achievement of which could be affected by the materialization of certain situations. So, ASEM's Strategic Development Plan with the established objectives and programs is the basic benchmark for identifying the institution's risks. When the identification is completed, the risks are recorded, we developed the Risk Register. Two types of registers were developed: one for the level of subdivisions, and the second – Consolidated Register for the entire organization. Obviously, some types of risks were found in several subdivisions, although the terminology used was different, the risks were essentially the same, so they were then grouped so that it was easier to manage them.

Step 4: *Risk assessment.* Once the risks are identified, the next step is the risk assessment. The assessment of risks involves the assessment of the probability of materialization of the risks and the impact (consequences) on the objectives if they materialize. The combination of the estimated level of probability and the estimated

level of impact constitutes the risk exposure. The probability of the occurrence of the risk varies from impossibility to certainty and is expressed on a five-level value scale: from very low probability to very high probability of materialization. We considered it appropriate to break down the impact into several components: the qualitative component, the patrimonial-budgetary component; the effort component (human resources); the time component.

The purpose of the risk assessment is to establish a hierarchy of the university's risks which, depending on the risk tolerance, allows establishing the most appropriate ways of treating risks and delegating risk management responsibility to the most appropriate decision-making levels. That's why the next step was:

Step 5: Ranking the risk and establishing the level of tolerance. Risk tolerance represents the "amount" of risk that ASEM is prepared to tolerate or to which it is willing to expose itself at a given time. Based on the total scores obtained, a risk ranking was made (very low, low, medium, high, very high), the ranking order was established.

Step 6: Determine the type of risk response. After the risks were identified, then their assessment was carried out, the tolerance limits were defined, within which ASEM is willing to assume risks, it is necessary to establish the type of risk response for each individual risk. The appropriate response can only be determined after the risk has been analyzed and compared to the organization's risk tolerance. Several types of risk response were used, depending on the results obtained in the previous stages:

- ✓ *Evasion*, which means giving up a certain action or choosing not to start it at all, is an option for responding to a risk. By choosing to avoid a risk, we have removed any possibility that it poses a threat to ASEM. This option was chosen for any risk that could land the institution in major legal trouble and where it has been decided that there is zero tolerance for the risk in question.
- ✓ *Risk reduction* is another type of response we use. If a risk does not fall within the acceptable level of tolerance, a decision will need to be made on how to proceed to ensure that it is reduced. We tried to apply certain reduction activities only when the opportunity cost justified this type of response.
- ✓ *Transfer of risk*. The purpose of risk transfer is to reduce the (mostly financial) impact should something materialize. In addition to insurance, another common risk transfer method used by us is the inclusion of indemnification clauses in various contracts (study contracts, rental contracts, consulting contracts, etc.)
- ✓ *Risk acceptance*. It is used in the case of risks whose probability of materialization and/or impact are so small that it does not make sense to allocate resources to avoid, transfer or reduce the risk. So accepting risk is a passive decision because it requires no action.
- ✓ *Risk taking*. In contrast to acceptance, assumption involves an active confrontation with the risk, which requires the development of a plan of measures to reduce the probability of the event materializing or to reduce the level of impact. All companies take risks in pursuit of their strategic aspirations. By implementing this enhanced level of risk management, risk-taking becomes intelligent and based on validly identified and assessed risks and opportunities – based on a balanced use of risk tolerance (Williams C., 2021)

Step 7. Establishing the method of monitoring, reviewing and reporting risks. It is an important stage of Risk Management and represents the monitoring of the execution of the actions established in the risk registers and the periodic reporting of the results to the management. Regardless of the risk response strategy selected, monitoring is a key part of risk management. This step is necessary because a risk response can change over time. Constant and systematic monitoring of risks is crucial for understanding which response strategies should be changed and when this should be done.

After establishing the formal risk management framework, the most complicated part followed: implementing the strategy. It is the most responsible and difficult step to take. Even if the strategy is well developed, its provisions must be transposed into organizational life. In this sense, the duties and responsibilities of each managerial level must be well defined, it is important to ensure that everyone properly understands their own role, the organization's strategy in the field of risks and how specific individual responsibilities fit into the general framework of the organization. If this is not achieved, risk management will not be able to be integrated properly and homogeneously in the organization, and priority risks will not be adequately controlled.

At the moment we cannot make any conclusive conclusions regarding the correctness and quality of the mentioned steps, because we have not completed a full cycle. But, some lessons have been learned. It turned out to be much easier to teach others how to do things than to do them yourself. It is important to have effective communication regarding the need to implement the mentioned strategy to ensure the development of the university. A formal approach will not bring the desired success. It is absolutely necessary to establish a risk committee (or its responsibilities could be assigned to the quality committee), which would be responsible for implementing institutional risk policies, monitoring risks and controlling the effectiveness of the measures taken.

IV. CONCLUSIONS:

The analysis of specialized literature indicated that today there is no generally accepted theoretical approach to the problems of risk management in the higher education system. Therefore, the analysis of trends in the development of risk management in higher education becomes extremely important.

At the moment, higher education institutions are going through a period of unprecedented change. To ensure development, they must adopt advanced management methods, approaches and techniques, including risk management. Now higher education institutions rely on the experience developed in other sectors of the economy, adapting the techniques, tools to the specifics of higher education institutions. Although it is necessary to develop specialized risk management tools specifically for higher education institutions, even this modest beginning can be considered with great benefits.

The study contributed to improving the understanding and knowledge of risk management - risk management is an effective management tool to help universities achieve their strategic goals.

Higher education institutions are subject to multiple risks, often interrelated, which, as a rule, do not affect only one objective, and risk control tools can influence several objectives.

Risk must be built into the quality assurance framework and, in turn, into the strategic and budget planning processes. Risk implemented as a separate process that is not considered an integral part of the strategic direction and performance of the university does not ensure the expected success.

Risks must not only be listed as items to be monitored, but also actively managed.

The future direction of this study is to investigate how to incorporate risk management processes into a university's core management cycles (based on ASEM) and develop a risk management framework to suit the university.

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