RISK MANAGEMENT IN BUSINESS ACTIVITIES OF HIGHER INSTITUTION WITH THE AIM OF ITS VIABILITY

Article *in* Total Quality Management · January 2014

Tatjana Janovac
University Business Academy in Novi Sad

International Journal ADVANCED QUALITY, Vol. 42, No. 4, 2014.

RISK MANAGEMENT IN BUSINESS ACTIVITIES OF HIGHER INSTITUTION WITH THE AIM OF ITS VIABILITY

UDC:

Prof.dr Branislav Jakić 1, MA Tatjana Janovac 2, Prof.dr Miodrag Brzaković 3

Faculty of Applied Management, Economics and Finance, Belgrade , 4 Nemanjina Street, Belgrade, Serbia tanjastanojlovic@yahoo.com; branislavjakicfmmsp@gmail.com; miodragbrzakovicfmmsp@gmail.com

Abstract: *The need to manage risks appears both on a strategic and operative level and it bears significance in decision making of the management in a higher education institution. The purpose of risk management is to accomplish sustainable development and success of a higher education institution in a fluctuating and competitive academic environment. The goal of this work is to emphasize the significance of risk management process in the higher education sector, based on the application of the ISO 31000:2009 standard.*

Key words: *risk management, uncertainty, higher education institutions, standard ISO 31000, sustainable success*

1. INTRODUCTION

Higher education institutions work in a completely different environment compared to ten or twenty years ago. Penetrating new markets, accreditation of new study programs, organizational changes, as well as the impact of the environment, all increase the risk exposure of an institution. Global financial crisis has imposed the significance of an adequate risk management.

Risk, which can be caused by the uncertainty of events of **internal character** (personnel changes, technology risks, financial, marketing, organizational, strategic, financial, operational) and that of **external character** (legislation, the demands of higher education users and the other parties in interest, social, economic and political risks), can affect strategically significant decisions for a higher education institution.

Risk management framework defined by the ISO 31000 standard helps higher education institutions to manage risk efficiently through application of risk management processes on various levels and in specific circumstances.

2. THE CONCEPT AND DEFINITION OF RISK

The term " risk " originally appeared in Homer's epic poem The Odissey, where it stood for sailing in uncharted waters, i.e. a predicament in avoiding perils of the sea. General conceptual definition of the term risk (riskus- Latin or risk- English) varies, from the historical aspect as well as the aspect of human activity.

Risk is a multidimensional notion which is present in professional, as well as in everyday life. The definition of risk has been established by many authors in the field of economics, banking, mathematics, statistics, management, and by theoreticians and practitioners who perceive and define risk from their own aspect. Risk can be defined as the possibility of loss, uncertainty, an aberration from real and expected results, as a combination of the probability that some event will occur and the consequences of that event. Uncertainty can be characterized as a state of lack of information and knowledge related to some event, its consequences or the probability of its occurrance.

The concept of risk consists of two elements – **probability** that some event will occur and the **consequence** of such occurrences. There are two predominant components in risk valorization : the fear of loss and the desire to win. In broadest terms, risk is defined as the possibility of enduring certain damage or loss, i. e. a factor, which includes uncertainty and hazard. According to this, it can be concluded that there is no general definition of risk, and it can be said that there is but a common denominator, and that is uncertainty and potential loss.

According to the ISO 31000:2009 standard, risk is defined as the impact of uncertainty on targets. [6] This definition includes both positive and negative impact on reaching one's targets. The targets have various aspects and can frequently be applied on various levels (strategic, operative, or processing). Risk is often defined in relation to potential events and their consequences or the combination of the two.

3. ISO 31000:2009 STANDARD

ISO 31000 standard is the result of the best practice in the field of risk management. This international standard provides guidelines for designing, implementation and maintaining the risk management process in the entire organization. It can be applied in any organization, regardless of their size, ownership or business activities, and it entails all types of risks which the organization is exposed to. It has been estimated that the ISO 31000 standard will be the highest global standard and that it will replace all national standards of risk management.

The advantages of applying the ISO 31000 standard: it ensures better business planning, management,decision making, reaching organizational targets, better information transfer, it reduces the risk of financial loss, it builds a positive image of an institution, it builds the trust of the parties in interest, and it is in compliance with legislative norms.

The foundation of the ISO 31000 standard lies upon accurately defined: Principles of risk management, Risk management framework, and Risk management process.

3.1. Principles of risk management

Efficient risk management implies application of the following principles [6]:

1. Creating added value
2. Integral segment of organizational processes
3. Decision making segment
4. Direct referring to uncertainty
5. Systematic, timely and structural approach
6. Based on the best information
7. Adaptability
8. Taking human and cultural factor into consideration
9. Transparency
10. Dynamism and susceptibility to changes
11. Ensuring continuous improvement and enhancement of the organization.

3.2. Risk management framework

Risk management framework defined by the ISO 31000 standard helps organizations to manage their own risks more efficiently through application of the risk management processes on various levels and in specific circumstances. The purpose of the framework is to ensure that the information on risks is used as the basis for decision making of the institution's management.

The risk management framework according to the ISO 31000 standard is a set of elements that provide foundations for designing, implementation and maintaining the process of organizational management. [6]

Once methodology and obligations are established, a loop is created, which includes:

- The risk management framework design
- Implementation of risk management
- Monitoring and review of the framework and
- Continuous framework improvement.

This directly addresses to the PDCA cycle for business management processes.

3.3. The risk management process

According to the ISO 31000 standard, the risk management process consists of seven stages. [6]

1) Communication and consultation :

Communicating with and consulting the parties in interest is the first step, although it continues throughout the process. This phase is significant and it should develop according to a plan. The most frequent parties in interest have different demands, which sometimes can be contradictory to each other. The parties in interest help the external and internal context to be perceived as well as possible, that is, to identify the risks as well as possible.

2) Establishing the context :

Through defining the internal and external context in which educational process takes place, are defined the activities for risk management, responsibilities and authorization, as well as the methodology that will be applied, and the manner in which performances will be set. SWOT analysis can be used to define the context.

3) Risk identification :

Risk identification is the most significant phase in business activities of a higher education institution, as well as in the realization of its basic activity – education. Risk identification represents a continuous process. In order to successfully realize the identification, analysis and evaluation of potential risks of business activities, it is necessary for the management of a higher education institution to be informed of the character, sources and manifestations of displaying risks and of the ways to avoid and treat them properly.

Identifying potential hazards in the higher education sector

- Changes in trends of interests of higher education users
- Activities taken over by the competition
- Changes in the monetary sphere (inflation, deflation, devaluation, etc.)
- Changes in the credit policy (credit expansion or restriction)
- Changes in the local self-government (privatization and restructuring of a company)
- Social changes (demographic changes)
- Legislative changes.

The consequences that can arise due to incorrect identification, analysis and improper risk treatment are:

- Material – financial loss in business dealings
- Organizational– loss due to bearing responsibility
- Personnel changes – the fluctuation in skilled personnel
- Dissatisfaction of higher education users and the other parties in interest
- The loss of business credibility and accomplished social position - a bad image of the institution.

4) Analysing risks :

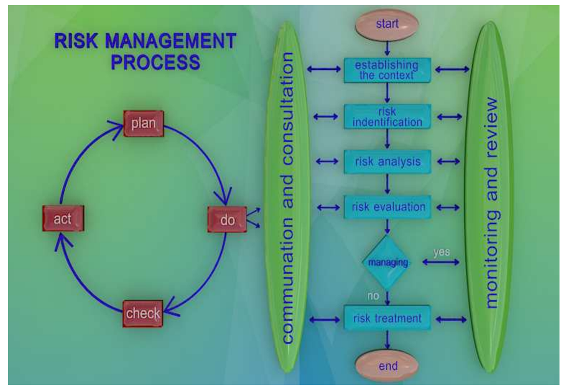
Risk analysis should consider the area of potential consequences and their appearance and it should demand a quantitative and qualitative approach to the analysis of different events.

In realization of business activities of a higher education institution there is a great deal of inconclusiveness, that is, a number of risks that the management of that institution can overcome and reduce their negative impact by analysing events which can cause some ill-effects, hence it is important to do the following :

- **The analysis of trends of interests of higher education users –** Great changes in lifestyle and the quality of life, social changes and modern way of doing business enforce the need for the number of educated people to increase continuously. The process of internationalization influences the demand for offering education services of as much variety and good quality as possible. According to the National Statistics Office data taken from the 2011 Census, 10.59% of population in Serbia are highly educated. 10% of all the unemployed people have a university degree. The trend of interests of higher education users – students, depends directly upon the demand for certain profiles in the labor market, i.e. upon the rate between the surplus and deficit of education profiles.
- **The analysis of demographic fluctuations** – The impact of demographic trends is of particular significance, considering that age structure, population size migrations circumstances of the population, all determine real and potential market demand. Demographic trend in Serbia is in decline, as shown by the 2011 Census. According to the results of that Census, the population size has decreased by 4.15%, or by 300,000, compared to the 2002 Census. Such a negative demographic trend affects education improvement in Serbia.
- **The analysis of competitive behavior –** Analysing one's environment in terms of competitiveness is a significant factor in establishing a marketing strategy. One should also not disregard the application of the benchmarking method, which represents "a standard for comparison to the best in the class".
- **The economic analysis of a society** - the purchasing power of local community, and the overall economic situation of one society are significant factors which have an impact on education. This could also be considered as recurrent – reversible processes, in other words, an economically stable society is an educated society and vice versa.
- **The analysis of an institution's strengths** – is determined by the SWOT analysis. The SWOT analysis indicates the strengths, weaknesses, opportunities of one institution, the threats, that is, risks that arise in the environment, as well as the critical points in business activities.

All business dealings, phenomena or activities, new processes in a higher education institution activate some form of risk. Business activities of a higher education institution are not the only bearer of risks, but life itself as well, and they are both absolutely inevitable. With the right attitude towards them, some inevitable risks can be minimized and thus reduced to reasonable range which will ensure more successful business activities.

It can be said that risk analysis is the crucial segment of the risk management process. If true causes and consequences of risk are not determined, too much time can be unnecessarily wasted in the process.



The risk management process according to *ISO 31000 standard*

5) Risk evaluation :

Comparing the evaluated levels of risk to beforehand established criteria and considering the balance between potential benefits and unfavorable results, as well as classifying the identified risks according to relevance. This ensures making decisions about the range and nature of risk treatment and the priorities.

6) *Risk treatment :*

After the risks have been identified and analysed, it is necessary to eliminate them. The manner in which the institution will eliminate the risks depends on numerous factors.

The identified risk is not eliminated completely, but reduced to the level acceptable to the institution.

Some risks are significant for strategic targets of the institution, others for its operational targets. Such risks are not eliminated but monitored.

Managing an identified operational risk entails selecting one of the four alternatives/strategies [3]

1. Accepting the risk
2. Avoiding the risk
3. Mitigating the risk
4. Transfer and sharing.

The best attitude towards business risks is to reduce the possibility of their occurrence by measures of strategic and operational management. Another possible attitude towards risks is to reduce the potential impact of certain negative events which cause risks. [2]

The result of a successful risk management is coordination and certainty in the decision making process, financial review competitive advantage, keeping the capital, a positive image of the institution.

7) *Monitoring and review :*

It is necessary to follow the efficaciousness of all the steps of the risk management process. It is significant for continuous improvement. It is necessary to monitor the risks and the contributions of the risk treatment measures, so as to ensure that changing the conditions does not change the priorities.

4. RISK MANAGEMENT AS A BUSINESS FUNCTION IN THE HIGHER EDUCATION SECTOR

Risk management should be the centre of strategic management in one organization, and thus in one higher education institution. It is a process by which a higher education institution methodically takes care of risks related to all past and future activities of an educational process as well as of general business dealings, with the aim to provide the viability of that institution and establish its position on a local and global level. Formulation of such a strategy is of great significance since it relates to all activities. A good strategy draws a clear distinction as to which types of risks are acceptable for the institution and what are the measures to be taken in order to eliminate drawbacks to treat a risk. In such a manner the management of that institution is enabled to coordinate its decisions with the guidelines for reaching its targets.

The essence of risk management is identifying the risk and the way to treat it. The risk management process consists of acquiring the information necessary for understanding the potential positive and negative aspects of all those factors that can have an impact on the running of processes and business dealings of a higher education institution. Such a process increases the possibility of success and reduces not only the possibility of failure but also the uncertainty of reaching the overall targets of that organization.

In the process of development of a higher education institution, and particularly in innovation of educational, scientific research and business process in general, it is necessary to establish the level of risk of the planning enterprise beforehand. In conditions defined in such a way the institution not only protects its business activities from unforeseeable risks but also gains competitive advantage because it takes risk with precaution. Inadequate risk management leads to unexpected and at times quite severe financial loss, which can endanger the viability and survival of the institution. The activity of a higher education institution such as developing new study programs, penetrating new markets, marketing strategy, bear certain risk, that is, the uncertainty of events:

- Operational risk / unforeseeable changes related to the range of business dealings, expenditure growth, changes in terms of organization.
- Strategic risk / conquering markets, the demands and expectations of higher education users and the other parties in interest.
- Technology risk / technology infrastructure.
- Personnel risk / personnel recruiting, willingness to change, scientific research evaluation, communication, responsibility.
- Market risk / competition, satisfaction of higher education users and the other parties in interest.
- Financial risk .

Development of new study programs depends on demand for certain business profiles in the labor market as well as on the trend of interest of the most numerous and direct higher education users, students. The curriculums of new study programs should offer different contents and enable the students regarding acquiring advanced levels of knowledge and skills.

Penetrating and succeeding in new markets directly depends upon the purchasing power of local communities as well as on demographic factor.

Development of new study programs, alongside market penetration demands additional engagement of human and material resources.

In business dealings of higher education institutions, we cannot speak of one single defined risk. Risks are a changeable category, that is , as one risk disappears, another one arises , the ones that used to be significant become less significant in time, and vice versa. Therefore the process of risk management is constant and interminable, hence identifying risk is as well .

5. CONCLUSION

Security of every business system entails adapting to and coordinating with real risks. A prerequisite for modern management of a higher education institution is based upon identification, analysis and elimination of the risks, that is, risk treatment. Risk management framework defined by the ISO 31000 standard helps the management of higher education institutions to manage risk efficiently through application of risk management processes on various levels and in specific contexts of the organization.The ISO 9001:2008 and ISO 31000 standards are compatible and together can constitute an integral system of management of a higher education institution. The system of risk management based on the ISO 31000 standard contributes a sustainable success of a higher education institution, which is founded on principles of quality, sustainable development, social conscience and business ethics.

Risk management as a business function incorporated into a strategy for quality assurance provides the following contributions to the management of an institution and the other parties in interest:

- **Controls developing of all the activities and processes,**
- **Improves the decision making process,**
- **Increases the transparency of business dealings, improves planning,**
- **Ensures efficient using and distribution of funds,**
- **Increases the capital of an institution,**
- **Accomplishes the satisfaction of higher education users ,**
- **Contributes to the creation of a better reputation and image of an institution,**

- **Differentiates the institution and establishes its position in the higher education market,**
- **Increases the possibility of attracting and evaluating high quality personnel.**

Undertaking risks and risk management represent the essence of a sustainable development and success of a higher education institution.

Risk should be considered from a positive aspect, as an opportunity for development, being in control of the circumstances and increasing one's knowledge.

REFERENCE

[1] Adelsberger, Z., "ISO 31000 standard – Risk management" http://www.kvalis.com/component/k2/item/165-iso-31000-upravljanje-rizicima

[2] Avakumović J., Avakumović Č. & Avakumović J., (2013),"Risk management in the business of manufacturing business systems ", FBIM Transactions, 15 01, 1(1), pp. 92-100.

[3] Barjaktarović L.,(2009)," Risk management", University Singidunum, Belgrade,pp.211.

[4] Chapman, R.J. (2011), Simple Tools and Techniques for Enterprise Risk Management (2nd ed.). Hoboken, New Jersey: Wiley&Sons.

[5] Drljača M., Bešker M.,(2010), „Sustainable success and risk management business" XIV. conference SQM 2010, Quality Center of Montenegro and journal Quality, No . 7-8, Business Policy, Belgrade, Tivat, pp. 33-39 i 110.

[6] ISO 31000:2009; Risk menagement – Principles and guidelines

[7] ISO 31010:2009; Risk menagement – Risk assessment techniques

[8] ISO 31100:2011; Risk menagement – Code of practice and guidance for the

[9] Rakovic R.,: " Integrated management system – Theory and practice" Building book Stylos, Belgrade, 2014

[10] Rotar L.J., Mitja Kozar (2012), " Research mechanisms for the implementation of risk management: a general approach and a practical example" , Management, Journal for the theory and practice of management, Faculty of organizational scienses, Belgrade , No.64

[11] Topčagić R. „Risk management -Enterprise Risk Management", Faculty of Economics, University Tuzla http://upravljanjerizicima.com/standardi-upravljanja-rizicima/3

[12] www.iso.org.