

Challenges in Indian Universities - An Enterprise Risk Management (ERM) Framework

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Abstract: *With the number of cases happening in several top Indian Universities in the form of student suicides, agitations, contempt of judiciary and so on, it is apparent that universities need to look into the possible lacuna's in themselves and also try to devise a proper risk management technique in order to maintain their statures as eminent places of higher education and harbinger of knowledge. This paper gives a practical approach to Enterprise risk Management for Universities.*

Keywords: Challenges in Universities, Risk management, ERM framework.

JEL classification Codes: I23, G32

Introduction

“Ensuring quality higher education is one of the most important things we can do for future generations.” – Ron Lewis.

With the number of cases happening in several top Indian Universities in the form of student suicides, agitations, contempt of judiciary and so on, it is apparent that universities need to look into the possible lacuna's in themselves and also try to devise a proper risk management technique in order to maintain their statures as eminent places of higher education and harbinger of knowledge.

In this context the paper looks into the challenges faced by most of the Indian universities and how Enterprise risk management framework can be helpful in resolving some of the issues.

Relevance of Universities

Universities just are not the providers of the next level in the learning process; but also are a crucial element of human development worldwide. It offers not only the high-level skills necessary for every type of labour market but also the training essential for teachers, doctors, engineers, humanists, entrepreneurs, scientists, social scientists, and a multitude of other personnel. These educated and trained individuals use their analytical skills in driving economies, civil societies and lead effective decision making bodies and take decisions for the entire state.

An educated mass is vital in today's world. Amassing of Knowledge and application of the same have become chief factors in economic development and are increasingly at the centre of a country's competitive advantage in the world economy.

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The recent World Bank study *Globalization, Growth, and Poverty: Building an Inclusive World Economy*, by David Dollar and Paul Collier, describes how 24 developing countries that integrated themselves more closely into the global economy experienced higher economic growth, a reduced incidence of poverty, a rise in the average wage, an increased share of trade in gross domestic product, and improved health outcomes. These countries simultaneously raised their rates of participation in higher education.

Indeed, the countries that benefited most from integration with the world economy achieved the most remarked increases in educational levels. Moreover, there is growing indication that university education by helping in building and empowering institutions and nurturing favourable regulatory frameworks and governance structures, is essential to a country's efforts to augment social capital and to promote social solidity, which is proving to be an important determinant of economic growth and development.

Growth through Risk Taking

Risk is inescapable in business activity. As Peter Drucker explained as far back as the 1970s, economic activity by definition commits present resources to an uncertain future. For the one thing that is certain about the future, is its uncertainty, its risks. Hence to take risks is the essence of economic activity. He considers that history has shown that businesses yield greater economic performance only through greater uncertainty or in other words, through greater risk taking (Drucker 1977).

Indeed the term "risk" has become shorthand for any activity. It is though not possible to "create a business that doesn't take risks" (Boulton et al. 2000). The end result of planned direction setting must be ability to take a greater risk, for this is the only way to improve entrepreneurial performance. However, institutions must understand the risks that they take. As in many instances it is futile to try to eliminate risk completely, Institutions must take calculated risks. It is becoming increasingly rare to find an organization of any size whose stakeholders are not demanding that its management exhibit risk management awareness. Institutions which are more risk conscious have for a long time known that actively managing risk and opportunity provides them with a significant competitive advantage. Taking and managing risk is the essence of survival and growth for any enterprise and it applies to universities also.

ERM Framework

As leaders seek new ways to build shareholder value, they have begun to think in new ways about how risk management is tied to value creation. It is indeed essential to recognise risks as not merely perils to avoid but as opportunities to accept.

In this context, ERM has emerged as an important new trend. ERM is a structured and disciplined approach aligning strategy, processes, people, technology and knowledge with the purpose of evaluating and managing uncertainties the enterprise faces as it creates value. "Enterprise – wide" means the removal of traditional functional, divisional, departmental, or cultural barriers. A truly holistic, integrated, future-focused, and process-oriented approach helps an organization manage all key risks and opportunities with the intent of maximizing shareholder value for the enterprise as a whole.

In recent years, more than ever, senior management has been searching for better ways to make informed decisions in order to achieve their business objectives. This has commonly been assisted through risk management practices. The gradual transition from conventional risk management to all-encompassing Enterprise Risk Management (ERM) has enabled senior

management to be aware of the risks to which it is susceptible, while developing plans designed to respond to these very risks.

Most organizations, however, are uncertain about how; exactly to translate the concept of ERM into concrete action steps that will help them enhance value. Leaders agree that as important as ERM might be in theory, it will never be valuable in practice unless it enables organizations to use risk information to drive business value in a way they could not do otherwise.

Enterprises operating in today's environment are characterized by constant change and require a more integrated approach to manage their risk exposure. This has not always been the case, with risks being managed in "silos". Economic, legal, commercial and personnel risks were treated separately and often addressed by different individuals within a company without any cross-referencing of the risks or an understanding of the impact of management actions adopted for one subject group on another subject group. Risks are, by their very nature, dynamic, fluid and highly interdependent. As such they cannot be evaluated or managed independently.

Hence in summary, Enterprise risk management may be defined as "a comprehensive and integrated framework for managing company-wide risk in order to maximise a company's value".

Prominent Challenges in Indian Universities

The prominent challenges faced by Indian Universities are as follows

- 1. Student Attainment:** This is one of the top issues so far universities are concerned. By attainment it should not just mean enrolment but also should focus on the aspirations of the students and how to develop the infrastructure to match and promote their skill sets and help in grooming them in totality. The needs of students if addressed properly would not allow them to revolt against the administration and would not lead to any undue mishaps.
- 2. Faculty, Staff and other Administrative Investments:** There should be sufficient investment on faculty, staff and other administrative heads to make it comfortable for the faculties and other people to deliver their best and hence help in institution building. A smooth functioning of a university requires all three pillars - Faculties, Staffs and Students to be able to work harmoniously which in turn requires sufficient investment for the three heads.
- 3. Funding:** The above Investment in the three heads requires funding. The central universities do not find it that difficult but the state universities which follow both the norms of the UGC and their respective state governments do have funding issues. Some of the old state universities have dilapidated infrastructure and unused land. These need funding for repair and further usage.
- 4. Innovation Pedagogy:** To be a top class institution imparting knowledge there should be innovation in teaching and research pedagogy. The concept of Interactive smart class rooms, the e- tests and e-evaluation and teaching are some of the buzz words. More so the conventional mode of teaching has to give space for application oriented and real life examples form of delivering lectures so as to make the students aware with day-to-day happenings. Similarly the faculty exchange programs help them in nurturing contemporary and comparative research studies and in the process enrich the universities with newer research findings.

Practicable approach for ERM in Indian Universities

Many leaders believe ERM is important and a potentially a competitive differentiator however; many of them remain largely unable to translate risk information into the desired action steps that can drive organisational value. Here we present some action steps to make effective implementation of Enterprise risk management in an university set up.

Classify risk broadly

Traditionally, institutions focused on financial risks covered by insurance. Current thinking defines “risk” as any impediment to accomplishing institutional goals. In a 2000 report, the National Association of College and Business Officers (NACUBO) discussed the “new language of risk” and identified five types of risk: strategic, financial, operational, compliance, and reputational. Therefore, a mix of internal and external risks needs to be defined broadly. In universities the major types of risk are Financial, Operational and Compliance. These can be further subdivided as Financial- Funding, Liquidity and interest rate risk; Operational - Strategic risk, Human Resource risks and Technological risks and Compliance and Regulatory risks. Last but not the least anything that a organisation does has to have an prior impact assessment on its reputation, so reputational risk is an dictum to be observed.

Recognize both the opportunities and downsides of risk

Many organisations focus only on the downsides of risk. In addition, they should weigh risks against potential returns. All successful organizations take risks, and the most promising opportunities often involve heightened risk. Say for example a university goes for borrowing on a massive scale for its up gradation. If the university after upgrading itself meet its target in getting recognition, foreign collaborations and student attainment, then it had done a nice thing by taking the funding risk in the form of borrowing.

In the similar fashion if there is a lawsuit over denial of tenure or extension of service of any group of contractual staff, there are litigation costs, but there are also non-monetary costs such as lost productivity, distraction from mission, and negative publicity. Then such instances should be looked carefully before taking any decision.

Delegate an owner for the risk identification process

Risk identification is the first step of risk evaluation. To ensure the process moves forward, institutions should designate an administrator to oversee risk identification by every department throughout the institution. Institutions need to identify and assess risks regularly at multiple levels so that the most critical ones filter up to top decision-makers.

However, many serious risks are first spotted by employees without fancy titles. Who at an institution would first know that campus buildings are developing mould problems, a donor database has security flaws, or a student is becoming dangerous to others? So, all the stakeholders should be a part of the risk identification process.

Assess and re-assess priority risks at least once a year

An institution’s environment is constantly changing. At least once a year, the higher officials need to figure out which risks are emerging, and which ones can come off the priority list. Imagine the unimaginable—a flood that closes your campus for a year, a student killing more than 30 classmates, a 20 percent drop in the stock market in one week. All of these

“unimaginable” events have occurred. So, a constant watch over the events and its consequences can be helpful for prioritizing the risks.

Continued process and Reporting

Risk management is not a one-time endeavour. A dynamic approach to protect the organisation from mission-critical risks and take advantage of emerging opportunities is what is needed. Reporting require annual written reports on each high-priority risk being monitored. Annual written reports ensure that administrators stay focused and In addition, they allow for monitoring progress in managing key risks.

Conclusion

The Universities are places of higher learning and have a role in building individuals who lead the change in the society and hence it is more imperative that these organisations should look into the challenges they are facing and also try to devise ways and means for making effective risk management viable.

In a free market all entities be a person, organisation, society or nation or world at large are exposed to risk. This risk exposure exists from the very inception. However, the source of risk is broader and the rate of change of the sources of risk has dramatically increased. The emergence of ERM has come about from the desire and need to move away from managing risk in silos and identifying and managing risk interdependencies. This is not some startling new intellectual breakthrough but rather a practical solution to a practical problem.

Enterprise risk management can become a strategic competitive advantage if it is used to identify specific action steps that enhance performance and optimize risk. Used appropriately, ERM thus can become a means of helping the organization shift its focus from crisis response and compliance to evaluating risks in business strategies proactively, to enhancing investment decision making and to improving shareholder value. Organizations that develop an ERM framework for linking critical risks with business strategies can become highly formidable competitors in the quest to add value for shareholders.

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