Impact of Risk Management on School management

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ABSTRACT

Risks can come from uncertainty in financial markets, project failures, legal liabilities, credit risk, accidents, natural causes and disasters as well as premeditated attacks from a challenger. The art and science of identifying, analyzing and responding to risk factors on a daily basis could be identified as risk management. Therefore it is a systematic approach to prevent or reduce exposure to losses. School boards, administrators, employees and volunteers are all responsible for risk management.

Keywords**:** Risk management, management, uncertainty, financial, market, institution.

INTRODUCTION

Risk management is a relatively young discipline that has undergone a rapid evolution. In recent years it has assumed considerable importance in managing institutions of every nature. Risk is the name of uncertainty and uncertainty is one of the basic realities of life. Everyone knows that risk taking is prone to failures and has to be prepared to suffer loses. Hence risk is natural in any walk of life in general and more so in the financial sectors in particular. In the words of William Jr. and Heins, "since no one knows the future exactly, everyone is a risk manager not by choice but by sheer necessity."[12] From every manager the institution's expectation is to anticipate the future and the outcome of the planning process. Risk management prepares the organization to operate in an ill defined and ever changing environment and gives capacity to deal with routine and abstract work process.

Louis E Boon would say that "Planning involves the establishment of organization objectives and development of strategies while controlling, establishes standards of performance and compares the actual results with the planned results to determine whether operations are being performed according to plans"[11] Another well known author Benjamin Franklin would cite another aspect of certainty that, "In this world, nothing can be said to be certain except death and taxes."[12] Therefore, uncertainty and risk remain in every part of life. Business world operates in a dynamic environment. Hence the future remains uncertain before it to a large extent. The importance of risk management is very vivid in the planning process of any type of institutions. As Robert Dewelt would says, "Unless we have a soundly chartered course of action, we will never quiet know what actions are necessary to meet our objectives. We need to map to identify the timing and scope of all intended action"[15]And this map is provided by risk management. Of course many of the uncertainties depend on the fate and at the same time many of them are avoided by the right application of risk management. However, the role of risk through fate has reduced considerably over the years with the help of a careful evaluation of the environment in which the organization is operating, are now able to predict, to some extent, the various risks that may have a critical impact on the business in general.

Risk is a very common word profusely used in the news media, particularly in financial journalism, academic journals, and professional magazines. Risk may be thought of as a concept that explains uncertainty in achieving goals. The drivers of uncertainty include lack of information, knowledge, and judgment and care to maintain a few such as the financial and material risk elements. Risk is one of the most crucial factors that influence financial behavior and it would be comparatively a simple job to allocate and manage resources in the absence of risk. Managing risk has brought about greater scope in the wake of the structural changes that have come about in the international financial world. Thus it is very vivid that school management also is not an exception in the case of taking risk. Better risk management can bloom the functioning of school management and to work in a better organized manner and see its goals in particular are achieved effectively and efficiently. Therefore in the article the author intends to discuss this vital phenomenon of risk management in the context of school management especially in the urban context.

OBJECTIVES OF THE PAPER

It will be an impossible task to deal with all the aspects and issues related to the impact of risk management in the context of modern school management. Therefore I have focused on the following objectives in this paper:

- To identify the importance of the impact of risk management in the context of Modern School Management.
- To recognize the areas where these aspects can be applied.
- To place few suggestions to improve the risk management of school management to be more effective in reducing risk elements.

The Meaning and Definition of Risk

There is no commonly accepted definition of the term risk. The meaning of this term is used differently at various situations. Risk is a speculative concept expressing the possibilities of unwanted outcomes. However for the purpose of insurance, this term refers to future risk of loss. Risk is defined by International Organization for Standardization as "the effect of uncertainty on objectives (whether positive or negative)"[8]. "Risk and uncertainty go together. Risk suggests that the decision maker knows that there is some possible consequence of an investment decision, but uncertainty involves a situation, where the outcome is not known to the decision maker"[19] But basically, whether the outcome is known or not, every activity would involve both risk and uncertainty. For our discussion, the word "Risk" is used to comprise all elements of variability of return, uncertainty of the outcome, etc. Therefore risk is defined as the cumulative effect of the chances of uncertain occurrences which unfavorably affect goals and objectives of the organization.

The Meaning and Definition of Risk Management

Risk management is any activity that identifies risks, and takes action to remove, reduce or control 'negative results' (deviations from the requirements of the institution). Thus risk management can be considered "as the identification of risk, assessment, and prioritization of it, followed by coordinated and economical application of resources to minimize, monitor, and control the probability and or impact of unfortunate event or to maximize the realization of opportunities"[8] Risks can come from uncertainty in financial markets, project failures, legal liabilities, credit risk, accidents, natural causes and disasters as well as premeditated attacks from a challenger. The art and science of identifying, analyzing and responding to risk factors on a daily basis could be identified as risk management. Therefore it is a systematic approach to prevent or reduce exposure to losses. School boards, administrators, employees and volunteers are all responsible for risk management.

Classification of Risks in the Context of School Management

We may observe when people gamble they pay to increase risk. But aside from the situations where risk is exciting people generally is risk averse and are willing to pay to reduce risk, especially in the case of any organizations with social responsibilities. Management of a business organization would face various types of risks in their day to day activities. Some may be of external in nature, which are not under the direct control of the management, like the political milieu, the changes in exchange rates or the changes in interest rates etc. The others may be internal in nature which the management can control to a great extent. In the same way at a lesser degree non-commercial institutions also face a number of risks both of internal and external nature. Such institutions also need to identify the risks that it faces in trying to achieve the pre-planned objectives. "The organization should aim to clarify its options so that those persons with the stake in the organization- its beneficiaries, staff and donors can thrash out issues and reach some consensus about what its goals should be amidst the existing risk elements."[8] Once these risks are identified, the management would need to evaluate these risks to see which of them will have critical impact on the institution and which of them are not significant enough to deserve further attention. Risks may be classified into different categories on the basis of nature, and characteristics of risks. When we classify the concept of risk we need to keep in mind that institutions of education are non profiting organizations. Many great writers on management **Gibson, Shiller, Tony Collins, MJ Mathew and Muller** have classified risks into a number of categories. Here I am going to state some of the most important categories of risks in the context of school management.

Liability and personal risks

Liability risk is a usual risk any enterprise takes on. Everything in and around the campus would be insured because the liability risk originates on account of loss happened to the property of other people or the loss happened to employees of any enterprise. In the context of a school or a college this can be a case of anyone who is part of the institution namely the students and the staff. The liability directly comes to the school management. "Personal risk arises on account of the death or incapacity of an earning member of a family or the death of an important member of any institution"[12] This type of risk directly applies to the employed personnel of the institution. This risk is directly affects the investment pattern of the institution. " Investment risk exists where there is more than one possible future return associated with one investment"[16] Of course to a great extent educational institutions are helped by the government by introducing Insurance of the students and buildings of school, ESI and PF system. The school management must be well aware of such schemes to reduce risk on the institution.

Physical, social and economic risks

Under the category of physical risk comes the occurrence of natural calamities like cyclone, fire, floods etc. This is in accordance with the physical and geographic existence of the institution. "Risk would be encountered in the physical environment, later on at level of social environment"[2] The management of such risk is always with the help of insurance companies. This could also be called as "static risks since they are created due to uncontrollable factors of nature. Social risks are the result of the behavior and attitude of any person, such as, employees' strike due to negligence of a person and civil disturbances etc."[12] This is a common risk for any institution. In order to avoid such risks the management needs to be in constant touch with the people of the organization. Economic risks influence the economic conditions of an institution. Economic risks in the context of companies are the result of uncertainty in production process; fluctuations in market demands, acute competition, etc. But in the context of school management would be directly related to the morale of the institution and the flow of admission in the same. "General macroeconomic conditions and competitive environment in which institution operates determine the nature of economic risk".[13] In short the market appreciation of the services rendered by an institution would result in better floe of admissions and morale of the institution. This purely occurs due to the social changes. All the above three risks could be managed by proper and timely attention. As Suchman says "Performance is evaluated always by effort, effectiveness, adequacy, efficiency and process"[5] because once the performance of the institution is undervalued by the market (i.e. the parents or guardians), it takes a long time to regain the lost glory. An institution needs to be cautious while reviewing the environment in which it is actively giving its service.

Expected Risk Levels in School Management

In the daily activities of the school as an institution number of risks emerges in accordance with the situation in which it operates. "Monitoring and measuring is a continuous activity and it involves collection of relevant data that represents the actual performance of the activity so that comparisons can the made between what is accomplished and what is intended to be accomplished."[9]

Macro Risk Levels

When the risks are overviewed at macro (large scale) level, risk can be divided into two main types; these are systematic risk and unsystematic risk.

Systematic risk is the risk that cannot be reduced or predicted in any manner and it is almost impossible to imagine or protect an institution against this type of risk. Examples of this type of risk include government legislation changes and the impact on the school management. In recent times the RTE as a common policy of the government has disturbed the atmosphere of the private school management. . Now the question is how to manage such unpredictable risks. The best way to handle such risks is to just acknowledge that this type of risk will take place and is going to affect all the activities of the organization and educational institutions are no exemption to it.

Unsystematic risk is risk that is specifically to assets features and can usually be eliminated through a process called diversification. Examples of this type of risk include employee strikes or changes of management decisions regarding the functions of the institution etc. The management thinks about the future of the institution while the employee plans for the security of his future. Both can easily collide and a middle path has to be taken. Here the risk management department plays a vital role. "Management makes a systematic effort to set performance standards with planning objectives, to design information feedback systems, to compare actual performance with predetermined standards, to determine whether there are any deviations and to measure their significance and to take any actions required to assure that all corporate resources are being used in the most effective and efficient way possible in achieving the corporate objectives."[14] Such situation must be handled to a great extent by democratic discussion and diplomatic approach to the problem.

Micro Risk Levels

While the above risk types are the macro scale levels of risk, there are also some more important micro (small scale) types of risks that are important when talking about school management. Though many authors have mentioned them as micro but in effect they too can equal the micro risks. These include:

Business Risk – "Business risks arise when the contracting counterparties do not fulfill their obligations"[13] This would mean the uncertainty of income caused by the nature of an institution just as companies' business measured by a ratio of operating earnings (income flows of an institution). This would indicate that the less confident you are about the income flows of an institution, the less certain will be the income flow back to you as an investor. The sources of business risk which mainly arise for a company are from its products or services, ownership support, industry environment, market position, management quality etc. "Establishing standards must be clearly specified and understood by all the organizational members without any ambiguity"[9] When we speak about business risk in the context of an educational institution it would mean the services against the expectations of the people connected with the institution.

Financial Risk – All type of institutions face risk. All the institutions constantly should make decisions about the future, but future is by definition uncertain. Financial risk is the risk created and sustained by its equity holders so as to create and use debt for its future planning and development. "Financial risk is defined as variability in returns to equity capital and in cash flow resulting from financing. It may also be defined as the possibility that a business may be exposed to monitory loss"[2]When the company raises capital by borrowing money, it must return this money at some future date along with interest etc. charged for borrowing the money. This increases the degree of ambiguity about the company because it must have enough income to pay back this amount at some time in the future. This situation is not an exception to an institution of education. It also borrows finance from various sources for its development and to provide modern facilities for its beneficiaries. The management always must be keen enough to observe the changing financial and economic environment of the business world so as to reduce financial risk if not able to avoid it.

Political Risk – This risk would directly mean about the changing political environment of a country or a state having considerable impact on the economy. Because this could devalue your investment and reduce its overall return. This type of risk is usually restricted to emerging or developing countries that do not have stable economic or political arenas. What we see in India is that our government is still having various experiments with regard to the trend of education. Any policy with a political agenda, to support a particular political vote bank would defuse the investors' mind even before thinking of investing. This would be a concern of those institutions which already have ventured various projects and are suffering with certain uncalculated agenda of the government.

Way out to Manage risk

Risk management is essential technique and crucial phase of performance management of every institution. Here risk management takes into consideration "what is expected to be delivered and by an institution or set of individual in an institution within a time frame stated in terms of results or efforts, tasks and quality with specification of conditions under which it is to be delivered"[1] This process would be mandatory for any institution to be successful in the future; it will have to provide unequalled customer service, deliver an exceptional product/service, and continuously make modern improvements. In this context cost benefit analysis is taken into consideration to evaluate risk elements present in any operation as it is " an art of sound decision making for personal, business, and public decisions by systematic comparison of the goods and bads you can expect with various alternatives."[10] As I have mentioned earlier, every institution must identify the risks and achieve the anticipated objectives. Always the manager must evaluate the risks and must compare and contrast the benefits of meeting the objectives. The entire process of identifying, evaluating, controlling and reviewing risks, to make sure that the organization is exposed to only those risks that it needs to take to accomplish its primary objectives, is known as 'risk management. According to Mark Dorfman "once risks have been identified and assessed, all techniques to manage the risk fall into one or more of these four major categories.

- Avoidance (eliminate the risk from the very beginning)
- Reduction (mitigate after having analyzed it with the impact of the risk on the future of the institution)
- Sharing (outsource or insure the risk with those who can protect the institution from ruin)
- Retention (accept and budget the plausible risks)"[4]

The perfect use of these strategies may not be promised with any type of risk management. Some of them may involve trade-offs that are not satisfactory to the organization or person making the risk management decisions.

Risk cannot be eliminated. However, it can be:

Various mental devices can help and institution to assess its risks and deal with them such as comparing your actual situation with hypothetical gambles with various odds. In the article Risk management an overview, Prof. R S Raghavan says that "the objective of risk management is not to prohibit or prevent risk taking, but to ensure that the risks are consciously taken with full knowledge, clear purpose and understanding so that it can be measured and mitigated. The purpose of managing risk is to prevent an institution from suffering unacceptable loss causing an institution to fail or materially damage its competitive position."[5] To arrive at this stage some of the following suggestions could help an educational organization.

- Transmitting to another party, who is willing to take risk, say by buying an insurance policy or entering into a forward contract;
- Reduced, by having good internal and external controls;
- Avoided, by not entering into risky businesses and new activities;
- Retained, either to avoid the cost of trying to reduce risk or in expectation of higher profits by taking on more risk, and;
- Shared, by following a middle path between retaining and transmitting risk.

There are various other tools available to the management to manage risks in the context of educational institutions. The others involve having better internal controls in place, due diligence exercises, compliance with rules and regulations, etc. All these are not implemented and used at a stretch but rather with the use of common sense. "The emergence of the knowledge intensive organizations as a key player in the knowledge economy signals a significant change from rigid organizational structures to more to more fluid forms of transferability of useful organizational knowledge."[17] Therefore select suitable controls or countermeasures to measure each risk. Risk improvement needs to be of standard by the suitable level of management. For example, a risk regarding the image of the organization should have top management decision behind it. The risk management plan should offer relevant and efficient security controls for managing the risks. A good risk management plan should enclose a schedule for control accomplishment and responsible persons for those actions.

Benefits of Risk Management Process

In practical terms we want to know which choice we would like to make in a particular risky situation. There are two steps to a sound decision: (a) understand the nature of risk and how it fits into the rest of the life of the institution, (b) use appropriate devices for allowing for the cost to you of assuming the risk or avoiding it. Towards this the greatest challenge is to create a novel environment in the working place. This process begins with the leader, who must create an environment conducive and favorable to it. In the swiftly changing work world of today, the manager must be more like a friend and coach than a boss; a co-worker instead of a manipulator. We are seeing a new world in which passion rather than knowledge, chaos rather than structure, are the norms. The old style of management has become superseded. A well balanced risk management system could make an institution to be at home with the following benefits,

- Improving your decision-making, planning and organizing skills.
- Well-organized allocation of the resources, both human and financial.

- Allows you to anticipate the problems and utilizes the best abilities.
- Risk management significantly improves the probability of the delivery of the future plan, within your time frame and budget.

Everyone knows that every institution would grow only if it takes risk. The greater the risk, the higher the profit and hence the institution must strike a middle path between the two. Essentially risk management is to identify measure and monitor the risk profile. While Non-Performing Assets are the heritage of the past in the present, risk management system is the pro-active steps taken at present.

If risks are appropriately assessed and prioritized, time can be saved in dealing with risk of losses that are not likely to occur. Spending too much time assessing and managing probable risks can deflect resources that could be used more beneficially. Unlikely events do happen but if the risk is unlikely enough to happen it may be better to simply hang on to the risk and deal with the result if the loss does in fact take place.

CONCLUSION

People sometimes enjoy the experience of uncertainty. There are many reasons why a person may prefer a sure out come rather than a set of uncertain out come. The intention of risk management is not to rule out or prevent risk taking, but to make sure that the risks are deliberately taken with full knowledge, clear purpose and understanding so that it can be measured and handled in time. As it is often said about persons that the personal strength of the desire to avoid risk is likely to depend upon economic and life circumstances and upon the size and nature of risky outcomes. The purpose of managing risk is to prevent an institution from suffering unexpected loss causing an institution to fail or materially damage its competitive position. The manager needs to approach any risk cautiously so that timely action can be taken to prevent it from its very beginning. Every institution must formulate a unique system of managing risk from its practices of the past. This practice would vary from institution to institution. As in the international practice, a committee approach may be adopted to manage various risks. Risk Management Committee, Credit Policy Committee, Asset Liability Management Committee, etc., are such committees that handle the risk management aspects. When the risk is taken more consciously, it anticipates adverse changes and hedges accordingly; it becomes a source of competitive advantage, as it can offer its products at a better price than its competitors. What I would state is that whatever can be measured can also be managed. It should be clearly understood that risk alleviation is more imperative than capital allocation against insufficient risk management system.

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