

ANALYSIS OF HIGHER EDUCATION OPERATIONAL RISK

Jener David Syamsia¹⁾, Ktut Silvanita Mangani^{2*)}, ML. Denny Tewu³⁾

^{1,2,3)}Dept. of Magister Management, Graduate School, Universitas Kristen Indonesia

¹⁾jenersyamsia18@gmail.com; ²⁾ktut.silvanita@uki.ac.id; ³⁾denny.tewu@uki.ac.id

ABSTRACT

This research was conducted at University-X regarding its operational Risk. This study analyzes operational risks resulting from the Foundation's institutional relationship and the University it manages. Specifically, the objectives of this study are (1) to identify undesirable events (KTD) resulting from the governance of the institutional relationship between foundations and University; (2) analyze how substantial Risk from undesired circumstances; and (3) perform mitigation to eliminate or reduce risk opportunities and impacts. The research method used in this research is a qualitative method with data collection techniques of participatory observation, interviews, document studies, and questionnaires. The results showed that there were ten undesirable events, that is: The appointment of lecturers and staff is not according to the procedure; University activities hampered the passive role of the institution; The dismissal of the chancellor of the University is not per the statute; Intervention by the Board of Supervisors; Lack of competence of the human resources director; The appointment of a rector is not per the needs of the campus; Payment policy for tuition fees with an instalment system; Uninterpreted educational and financial procedures; As well as community culture that is not supportive. The risks arising from an undesired event have weighted risks, moderate to very high. Furthermore, undesirable events mitigated according to the opportunities and risk impacts that can be reduced by the conditions available when the research conducted.

Keywords :

University, Operational Risk, Governance, Risk Management

Introduction

Risk management is vital in higher education institutions as an effective management tool to help them achieve strategic goals. (Halim, 2007). Built The argument because few universities, especially private universities, were involved in the Foundation's conflict that founded them. In the 5th July 2016 edition of Kompas, there were 205 university-foundations experiencing conflicts (Brewer & Walker, 2010).

Based on the empirical facts and the author's reflection, there is a university-X conflict caused by institutional governance issues, namely the institutional relationship between foundations and University. Claims of authority (agency theory) that based the arguments on laws and regulations occur between the Foundation and the University-X. The Foundation claims control as a legal entity that provides the University through Law Number 28 of 2004. Meanwhile, on the other hand, the chancellor also claims to be the leader of the University that organizes academic education programs that are responsible for all related parts, including resources and finance (Lundquist, 2015). The management of foundations and universities have different interpretations regarding the institutional relationship with all the

authorities that belong to each party. Each of them claims power parties ignore the formal aspects that have been established together in the University Statute (Sum & Saad, 2017).

This conflict has real implications for institutional governance. Changing the chancellor in the 2014-2018 period, which is considered a middle way, has caused other problems. Populist leadership style as a middle way results in the recruitment of lecturers, employees, and officials' appointment, most of whom do not meet the minimum requirements written in the University Statute (Muhlis & Supriyadi, 2018). In the financial sector, the payment system developed has been changed to paying tuition fees with a weekly instalment system (Mendoza, 2019). Made This policy with the hope of easing students' payment; instead, this policy made students disorderly in delivering. With such a payment policy, the financial situation was in trouble at that time. However, additional lecturers made when the financial condition was in poor condition, which caused the campus financial burden to increase. On the other hand, foundations as profit institutions only rely on financial sources from students' tuition fees.

Based on the explanation, it can be seen the problems that arise in the implementation of

operational activities at University-X influenced by the institutional relationship between the Foundation and the University. Ideally, the University Statute is the main guideline that facilitates different interpretations of the applicable law so that both foundations and the University can jointly realize the expected goals.

This study focuses on capturing the dimensions of operational risk management at the University-X. Effective active risk management expected to improve the ability of the institution to achieve its business goals. Focuses its efforts on income-generating activities. Related to that, the research results of Tarigan & Mangani (2018) show the importance of identifying, measuring risks, and evaluating risks as a need to improve mitigation strategies.

The study's limitation or scope on the institutional relationship between the Foundation and the University-X based on personal reflections as the university-X condition manager and the reading results of previous studies that show some gaps need to be completed.

Literature Review

Concept of Higher Education

Law regulates the establishment of private University No. 12 of 2012 in Article 60 paragraph 2. The community establishes a private university by forming a non-profit legal entity obliged to obtain a minister's permit. In Article 60, paragraph 3, the legal entity, as referred to in paragraph 2, can be in the form of a foundation, association, and other structures under the provisions of laws and regulations. Further requirements for a university to be established must meet the minimum standards of accreditation. The University is required to have a statute that private university administering bodies must be non-profit, thus becoming the primary requirement in assisting the University by not taking advantage of the university activities. The benefits obtained are used to guarantee and develop the University by improving Human Resources (H.R.), governance, infrastructure, and university activities.

Ministry of Research and Technology regulation (Permenristekdikti) Number 16 of 2018 explains that universities in general, including

private universities, are essentially higher education units with a mission to seek, discover, disseminate, and uphold the truth. Besides, private University has to organize the Tridharma of Higher Education, namely education, research, and community service. For a private university to carry out the above roles, it must be adequately managed (good university governance). Good university governance is a series of mechanisms to direct and control a university to run according to all interested parties' expectations by applying the principles of transparency, accountability, responsibility, fairness, independence, equality, and equity. Good university governance outlined in the university statute, which is the university management's basic regulation, which will draft rules and operational procedures in each University.

Good Corporate Governance (GCG)

Good corporate or organizational governance helps prevent corporate scandals, fraud, and potential civil and criminal liability from the organization. A good corporate governance image enhances the organization's reputation and makes it more attractive to customers, investors, and suppliers. There is some evidence that good corporate governance yields benefits. In this case, private companies that intend to seek capital from financial institutions and institutional investors must also be sensitive to the image of corporate governance because this is an essential factor in the final decision to provide means to the organization. Private and family-owned companies benefit from good corporate governance by avoiding the adverse effects of sibling competition and costly litigation between family members who have different views on the business (Lipman & Lipman (2006).

Five principles guide good and correct corporate governance: Transparency, Accountability, Responsibility, Independence, and Fairness.

Risk in The University

Higher education has several unique challenges that are not faced by other organizations, such as perceptions of the quality of educational programs, the number of students, and infrastructure. University also faces challenge

how to get capital to provide education and university outreach, collaborating with other institutions, offering competitive scholarships and financial distribution or state assistance, decentralization programs and online learning, and human resource issues (Willson et al., 2010). The University also deals with the responsibilities and risks concerning academic quality standards, accident factors in learning location outside the campus, and terrorist attacks towards academic researchers (Dolan, 2006). University has a unique risk because it is related to future generations seeking, developing, and disseminating knowledge and intelligence. On the other hand, the balance between the unlimited transfer of expertise and service, safety and convenience are essential issues that need to be concerned (Furthermore, Helsloot & Jong, 2006).

The University of Nottingham strives to improve its internal capabilities and resources to manage the risks well. Still, its application requires some adjustments due to the different contexts with business institutions. Along the way, the use of risk management in the U.K. has become increasingly institutionalized (Halim, 2007).

In their research at Australian University, Brewer and Walker (2010) stated that risk management in the institutional governance structure would facilitate the 'planting' of risk-based management culture in the organization. More specifically, in his research, Lundquist (2015) questioned how to adopt, implement, and integrate Enterprise Risk Management (ERM) in Colleges and universities in the United States. It was explained that as ERM matures in University (P.T.), the decision-makers to find ways to adapt the ERM base to the university culture, to embed risk management with business practices, institutional governance, and strategic planning, and including explicitly discussing risks in making institutional decisions to achieve institutional goals and fulfil their mission.

In Asia, such as Malaysia, as explained by Ariff et al. (2014), that since 2011 the introduction of the University Good Governance Index (UGGI) requires public University in Malaysia to implement organized risk management because the University will compete, pursuing high rankings in the world university rankings, increasing competition to get international

students quality, and competing globally for research, teaching, and learning. This was further emphasized by Ahmad et al. (2016) that stated that state universities in Malaysia could not avoid risk management in managing various risks. They identified that the increasing demand for the autonomous government, especially in financial and resource decision-making, has made universities held accountable for the freedoms given to them.

Operational Risks

A survey conducted in the U.K. and Australia by Pricewaterhouse Cooper and the British Banker's Association in 1997-1998 presented the finding that 75% of banks thought operational Risk was essential or more important than market risk or credit risk. Operational Risk is an inherent part of any business, and operational Risk can make a company appear ill-equipped to prevent or face fraud, error, or lack of control, which in turn can seriously damage the company's reputation (James, 2007).

Effective operational risk management has the potential and benefits (Lam, 2007), namely (1) minimizing losses while reducing the potential for more significant events; (2) increase the ability to achieve its business goals so that management is not constantly immersed in managing crisis after crisis but focuses on generating revenue; and (3) companies that have a good understanding of their operational risks will provide the whole picture of the risks and potential outcomes of their various businesses.

To effectively manage and control risks, management requires a clear and detailed picture of the risks and the control environment in which they operate. Without this knowledge, one cannot take appropriate action to address the escalating problem. For this purpose, one must identify risks.

Four causes can create operational risk losses. The four elements are (1) Inadequate processes, (2) Inadequate people, (3) Inadequate systems, and (4) External events.

Process Risk in operational Risk occurs due to ineffective or inefficient processes. Ineffectiveness defined as a failure to achieve goals, while process inefficiency is achieving goals but with high costs (Hardiasyah, 2015). Sometimes there is a natural conflict between the

two. For example, reengineering and cost-saving efforts that focus on increasing efficiency can inadvertently end up reducing the effectiveness of a control process because a particular inspection process (which tends to overdo it) eliminated. Therefore, a balance must occur between effective and efficient strategies. In the context of the University (P.T.), process risk can be a combination of a process that interacts with the financial process, staffing, human resources, student affairs, and cooperation (Creswel, 2007).

Human Risk usually results from limited staff, incompetence, dishonesty, or a company culture that does not raise awareness of Risk. Staff limitations occur when a company cannot fill a vacant position because of a shortage of workers or because compensation and other incentives are not attractive to new candidates (Creswel, 2015). Incompetence becomes a problem when employees lack the skills and knowledge necessary to carry out their jobs properly. Lack of training and professional development will continue to increase human error. Dishonesty within the company can lead to fraudulent activities such as theft by employees. In the University (P.T.) context, this Risk includes people associated with the Foundation's organ and rectorate (Jogiyanto, 2004)

System Risk occurs when technology becomes increasingly needed in many business fields. Risk events resulting from system failure have become an increasingly concerning issue. Companies today often use integrated systems throughout the company and develop plans that are specifically custom to their own business needs (Bungin, 2008).

. However, if the company's technology infrastructure development does not follow its business development steps, there will be potential risks. System risks include system availability, data integrity, system capacity, unauthorized access, and use, and business recovery from various possibilities. In the University (P.T.) context, system risk can be in the form of losses due to wrong financial models.

An external Risk is an external event that disrupts activities. In the University (P.T.) context, these risks include risks that occur due to conflict, government policies, and political risks.

Method

The research method used in this research is a qualitative method with a case study design and data collection techniques, namely participatory observation, surveys and interviews, and document studies (Sugiyono, 2009; 2010; This research has conducted from 2019 to April 2020. This research has been undertaken in a participatory manner because the researcher is part of the University-X.

The data analysis technique used in this study carried out in two stages, namely, firstly, used interactive data analysis techniques to find a comprehensive description of the institutional relationship between the Foundation and the 'X' University, and the second stage was the formula for calculating the Risk resulting from this relationship in several risk aspects:

$$R = P \times D$$

Explanation:

R = Risk Weight,

P = Risk Opportunity, determined based on university historical data, using a Likert scale 1 – 5 (Very Rare – always),

D = Risk impact, determined based on estimation, using a Likert scale 1 – 5 (Very Mild – Very Severe).

The heat map table resulted from the formula is as shown:

Impact	Probability					
	Scale	1 Very Rare	2 Rare	3 Sometimes	2 Often	1 Very often
5 Very Severe		5	10	15	20	25
4 Severe		4	8	12	15	20
3 Moderate		3	6	9	12	15
2 Mild		2	4	6	8	10
1 Very Mild		1	2	3	4	5

Figure 1. Heat Map

RESULTS

The operational risks arising from the institutional relationship between University-XFoundations are shown in Table 1.

Table 1. Analysis of Undesirable Events (KTD)

No	KTD	Score Opportunity	Score Impact	Risk Weight	Risk Criteria
A Proses Risk					
1	The appointment of lecturers and staff is not according to the Standard Operation Procedure (SOP)	4	4	16	Often
2	University activities are hampered	4	4	16	Often
B People Risk					
3	Intervention by the Board of Supervisors	4	4	16	Often
4	The dismissal of the chancellor of the University is not per the statute	4	5	20	Often
5	The passive role of the institution	5	4	20	Often
6	Lack of competence of the human resources director	1	4	4	Very Rare
7	The appointment of a rector that is not per the needs of the campus	3	5	15	Sometimes
C System Risk					
8	Payment of tuition fees is paid in instalments every week, resulting in default and late payment of salaries	5	5	25	Very Often
9	The academic system that has not been integrated with the financial system	5	3	15	Sometimes
D External Event					
10	Community Culture	5	5	20	Often

Based on data on opportunities, impacts, and risk weights, further mitigation efforts have been made to reduce risk opportunities and risk impacts, as explained as follows:

A. Process risk

1. Development of Human Resources

Undesirable Events The appointment of lecturers and staff is not as needed		Score	Status
Causes Excessive intervention authority of the supervisors and the foundation management			
Opportunity 4 People (from 2015-2017).	Impact <ul style="list-style-type: none">• The ratio of lecturers to students is not balanced• Lecturers for further studies do not suit the	16	Often

(Score=4)	campus needs • The financial burden is getting bigger (Score=4)		
Opportunity Mitigation A qualified PSDM Director (Score= 2)	Impact Mitigation HRM analysis according to needs (Score= 2)	4	Very Rare

2. Development of Human Resources

Undesirable Events The appointment of lecturers and staff is not as needed		Score 16	Status Often
Causes Excessive intervention authority of the supervisors and the foundation management			
Opportunity 4 People (from	Impact • The ratio of		

2015-2017).	lecturers to students is not balanced • Lecturers for further studies do not suit the campus needs • The financial burden is getting bigger		
(Score=4)	(Score=4)		
Opportunity Mitigation A qualified PSDM Director	Impact Mitigation HRM analysis according to needs	4	Very Rare
(Score= 2)	(Score= 2)		

3. University Activities

Undesirable Events Activities are Hampered		Score	Status
Causes The rights of lecturers and staff not fulfilled on time			
Opportunity Very Often Happen (Score=4)	Impact • The quality of learning is not per the demands of the curriculum • The reputation of the campus has decreased (Score=4)	16	Often
Opportunity Mitigation There is a reserve fund (Score=2)	Impact Mitigation Evaluation of lecturers and staff (Score=3)	6	Rare

B. People Risk

1. Board of Supervisors

Undesirable Events Excessive Board of Supervisors intervention		Score	Status
Causes Lack of understanding of the management of private University			
Opportunity Very Often Happened (Score=4)	Impact The organizational structure has become weak (Score=4)	16	Often
Opportunity	Impact Mitigation	6	Rare

Mitigation Written guidance on the roles, functions, and authorities of each party	• Disciplined leader • Disciplinary action (Score=3)		
(Score=2)			

2. Termination of the Chancellor (Rector)

Undesirable Events Dismissal is not per the mandate of the University Statute		Score	Status
Causes Lack of understanding of foundation governance in education and authoritarian-bureaucratic behaviour			
Opportunity 2013-2014 there are three (3) times the change of rector (Score=4)	Impact Organizational culture is chaotic, and campus management is not professional. (Score=5)	20	Often
Opportunity Mitigation • The dismissal process must comply with the University's statute • Provides a deterrent effect (Score=2)	Impact Mitigation Improve organizational culture (Score=1)	2	Very Rare

3. The role of the Foundation

Undesirable Events The passive role of the Foundation in terms of financing		Score	Status
Causes B.P. Not working as a team with a shared vision			
Opportunity Very Often (Score=5)	Impact Ineffective campus business processes (Score=4)	20	Often
Opportunity Mitigation Establish a business unit (Score=3)	Impact Mitigation Efficiency (Score=2)	6	Severe

4. Placement of HRD officers

Undesirable Events Improper placement of HRD officers		Score	Status
Causes Limited human resources			
Opportunity One time (from 2014-2018) (Score=1)	Impact Decreased work performance and productivity (Score=4)	4	Very Rare
Opportunity Mitigation Appropriate and competent officials (Score=1)	Impact Mitigation HRM improvement (Score=2)	2	sometimes

Opportunity Mitigation • 2-stage payment (70% at the beginning of the semester and 30% in the middle of the semester) • Provides an apparent effect by disciplining students (Score=4)	Impact Mitigation Implementation of the right and efficient strategy (Score=3)	12	Sometimes
--	---	-----------	------------------

5. Appointment of the Chancellor after the internal conflict

Undesirable Events Incorrect appointment of chancellor		Score	Status
Causes Board of Supervisors intervention			
Opportunity Three times (Score=5)	Impact The campus is experiencing a continuous crisis (Score=4)	20	Often
Opportunity Mitigation Officials who have managerial skills and experience (Score=2)	Impact Mitigation Institutional arrangement and organizational culture (Score=1)	2	ild

2. Academic and Financial System

Undesirable Events Differences in academic and financial data		Score	Status
Causes The system is not integrated yet			
Peluang Three (3) Times in a year (Score=5)	Dampak There was fraud or extortion in the payment of tuition fees (Score=3)	15	Sometimes
Opportunity Mitigation Integration of academic and financial systems (Score=2)	Impact Mitigation Coordination and communication (Score=2)	4	

Based on mitigation, the heat map results are described in Fig.2

C. System Risk

1. Payment of tuition fees

Undesirable Events Payment of tuition fees in instalments every week		Score	Status
Causes Often provides policies that do not educate students			
Opportunity as semester proceeds (Score=5)	Impact Campus operations are disrupted (Score=5)	25	Very Often

	Scale	Probability				
		1 Very Rare	2 Rare	3 Sometimes	4 Often	5 Very Often
Impact	5 Very Severe	5	10	15	20	25
	4 Severe	4	8	12	16	20
	3 Moderate	3	6	9	12	15
	2 Mild	2	4	6	8	10
	1 Very Mild	1	2	3	4	5

Conclusion

Based on the research findings, analysis, and discussion, it can be concluded as follows:

D. External Event

3. Community Culture

Undesirable Events		Score	Status
Very often ask for a policy for waivers or compensation for tuition fees			
Causes			
Incorrect theological thinking			
Opportunity Every semester (Score=5)	Impact Disturb cash flow (Score=4)	20	Severe
Opportunity Mitigation Discipline students (Score=3)	Impact Mitigation Providing awareness of the importance of cooperation in building a campus (Score=3)	9	Sometimes

Based on mitigation, the heat map results are as described in Fig. 2.

1. As a result of the Foundation and the University-X's institutional relationship, there were ten (10) undesirable Events.
2. Each undesirable event harms the development of the University and specifically disruptive to the operations of University-X.
3. From the ten (10) undesirable events, the opportunity and impact mitigation has been carried out, thereby reducing the level of Risk
4. To improve the risk management culture, further mitigation that has been carried needs to continued to become the operational standard for university activities.

References

- [1] Ahmad, S. N., Isa, M. Y., & Tapa, A. (2016). Web disclosure of risk management practices in Malaysian public University. *International Journal of Academic Research in Business and Social Sciences*, 6(11):404-410.
- [2] Ariff, M. S. M., Zakuan, N., Tajudin, M. N. M., Ahmad, A., Ishak, N., &

- Ismail, K. (2014). A framework for risk management practices and organizational performance in higher education. *Review of Integrative Business and Economic Research, Society of Interdisciplinary Business Research*, 3(3):422-432.
- [3] Brewer, A., & Walker, I. (2010). *Risk Management in a University Environment*. Proceedings of the Australian Quality Forum 2010.
- [4] Bungin, B. (2008). *Analisis Data Penelitian Kualitatif: Pemahaman Filosofis dan Metodologid ke Arah Penguasaan Model Aplikasi*. Jakarta: Raja Grafindo Persada.
- [5] Creswell, J. (2007). *Qualitative Inquiry: Choosing Among Five Traditions*. California: Sage Publication.
- [6] Dolan, T. G. (2006). Few schools are ready to manage a crisis. *Education Digest: Essential Readings Condensed for Quick Review*, 72(2), 4-8.
- [7] Girling, P. (2013). *A Complete Guide to a Successful Operational Risk Framework*. New Jersey: John Wiley & Sons
- [8] Government Regulation Number 4 of 2014 concerning *Implementation of Higher Education and Management of Higher Education*
- [9] Halim, A. K. (2007). *Developing A Formal And Integrated Risk Management Framework In The Higher Education Sector: A Case Study On The University Of Nottingham*. Thesis Management of Risk, The University Of Nottingham.
- [10] Helsloot, I., & Jong, W. (2006). Risk management in higher education and research in the Netherlands. *Journal of Contingencies and Crisis Management*, 14(3), 142-159.
- [11] Herdiansya, H. (2015). *Metodologi Penelitian Kualitatif untuk Ilmu Psikologi*. Jakarta: Salemba Humanika.
- [12] International Standard. (ISO 31000). *Risk management—Principles and Guidelines*.
- [13] Jogiyanto. (2004). *Metodologi Penelitian Bisnis: Salah Kapra dan Pengalaman-pengalaman*. Yogyakarta: BPFE.
- [14] Koenig, D. R. (2008). The human reaction to risk and opportunity. In *New Frontiers in Enterprise Risk Management*. Springer, Berlin, Heidelberg.
- [15] Law No. 12 of 2012 concerning *Higher Education*.
- [16] Law No. 14 of 2005 concerning *Teachers and Lecturers*.
- [17] Law No. 28 of 2004 concerning *Amendments to Law No. 16 of 2001 concerning the Foundation*
- [18] Mendozaa, M. F. J., Gallego, S. A., & Azapagica, A. (2019). A methodological framework for implementation of circular economy thinking in higher education institutions: Towards sustainable campus management. *Journal of Cleaner Production*.
- [19] Mukhlis & Supriyadi. (2018). Desain Sistem Manajemen Risiko pada Perguruan Tinggi Negeri Badan Hukum (PTN-BH) Studi Kasus pada Universitas Gadjra Mada. *Jurnal of Applied Accounting and Taxation*, 3(2), 158-167.
- [20] Permenristekdikti Number 16 of 2018 concerning *Compilation of Statutes*.
- [21] Permenristekdikti Number 16 of 2018 *explains that the regulation of the Internal Quality Assurance System (SPMI)*
- [22] Sugiyono. (2009). *Memahami Penelitian Kualitatif*. Bandung: Alfabeta.

- [23] Sugiyono. (2010). *Metodologi Penelitian Kuantitatif, Kualitatif dan R&D*. Bandung: Alfabeta.
- [24] Sum, R. M., & Saad, Z. M. (2017). Risk management IN universities. In *3rd International Conference on Qalb-Guided Leadership in Higher Education Institutions (iQALB 2017)* (pp. 128-142).
- [25] Sunaryo, T. (2007). *Manajemen risiko finansial*. Bandung: Salemba.
- [26] Tarigan, R. E. B., & Mangani, K. S. (2018). Operational risk analysis of network Operation Center Division pt. IO. *Annals of Marketing Management & Economics*, 4(1), 115-129.
- [27] Willson, C., Nego, R., & Bhatnagar, A. S. (2010). University risk management: an embedded ERM program can help address the threats to an institution's mission and strategic objectives. *Internal Auditor*, 67(4), 65-69.