

# RISK MANAGEMENT IN HIGHER EDUCATION INSTITUTIONS IN BULGARIA – STATE AND PROSPECTS

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**Abstract:** The paper examines the main challenges facing universities in Bulgaria. It presents organisational issues of risk management in the higher education system and focuses on practices that need to be changed in order to implement risk management. Based on comparative content analysis, it identifies key areas that should be the subject of intervention in educational and scientific organisations in order to achieve efficiency, effectiveness and appropriateness of the process. The paper proposes solutions to improve risk management in the sector. It outlines guidelines for introducing a systematic approach to risk management in order to improve the organisational environment and operational management.

**Keywords:** risk management, educational and scientific organisations, maturity of the risk management process.

**JEL classification:** A2, O2, M10.

## Introduction

The issues related to the management of an educational and scientific organisation are extremely diverse and complex. They arise both from the objective factors in the environment and from normative regulations, political decisions and public attitudes. Educational and scientific products presuppose a high degree of expertise, which is created and developed in a

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favourable environment. Unfortunately, in Bulgaria, and not only, this environment cannot be defined as favourable. Social challenges related to the dynamics of the demographic picture, social values, the attitude of the labour market to education and its evaluation of labour, the long transition and many reforms, unsustainable, even often volatile, tools for managing the sector and many others have created deformations that determine the state in which the universities are today. The devaluation of public relations, values, expectations towards the educational and scientific process have led to disparage of lecturers and researchers to traders of educational services. This inevitably affects the quality of teaching and learning.

Universities must create the conditions to assist management of organisational risks in order to be competitive, innovative, and perspective.

The aim of this paper is, through content analysis of strategic, regulatory, methodological and institutional documents, and through comparative analysis of practices in the field of risk, to highlight the current state of the risk management process and to outline prospects for its development.

The object of study are the universities in Bulgaria, as educational and scientific institutions, and the subject is the process of risk management from an organisational point of view.

### **1. Challenges for educational and scientific organisations**

The strategic management of higher education institutions in Bulgaria faces a number of challenges. Perhaps one of the most significant is the demographic collapse that determines the system. Continuous reforms in education policy and the introduction of new requirements need response efforts that draw on organisational resources and time and are often inadequate, as they remain disconnected from higher education processes. Chronic underfunding, which affects both the quality of education and research, the lack of a unified state policy regarding the relationship between education and the labour market (Risk management lab, 2014, p. 12) should also not be neglected as restrictive conditions that are difficult to overcome individually by schools. They, in turn, carry many risks to the functioning of

the education system and provoke issues related to decisions – complete or partial, to mitigate the negative effects.

There are many models, methods and approaches for managing financial risks. Here, however, attention will not be focused on them. It is true that the significant financial risk can lead to the collapse of any organisation, but we believe that the management of non-financial risks can limit the impact of financial risk and turn it from essential to acceptable risk.

Many of the challenges facing universities are related to environmental factors, processes and phenomena, which, unfortunately, are not directly influenced by one or another university. At the local level, optimisation and recovery measures can be taken, but they are not sustainable over time and will not lead to the anticipated increase of education and research activity. On the contrary, in this way it is entering a spiral that constantly requires reforms for higher quality with less costs and reduced revenues. Thus, the higher education system has been undergoing constant reforms for years, which, as time has shown, are ineffective and with persistently negative effects on the sector. Thus, objectively existing risks, arising from the unfavourable demographic picture, are combined with unstable public policies and significantly worsen the risk profile of higher education institutions.

Each university in Bulgaria operates in a dynamic environment that constantly raises questions and requirements for the sector without taking into account its ability to react. Universities are not given the opportunity to act proactively due to frequent regulatory and strategic changes. In the best-case scenario, high education institutions can have proactive behaviour in which factors and trends are analysed, anticipated and studied and an attempt was made to manage them within the organisational and resource possibilities. However, in many cases, it is insufficient and therefore inefficient and negatively affects the overall activity.

It is extremely important that the strategic decisions, which are made at the university level, take into account the risks to them in the future. Strategic risks are associated with “the possibility of such consequences of the chosen strategic decisions, in which the set goals are not partially or completely achieved.” (Kleyner, 1997). The inability to manage adequately risk contributes to the unconscious application of the so-called

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“precautionary principle”. (Pacheva.V, 2009, p. 61). This principle implies flexibility in risk management to each individual without, however, eliminating the responsibility. In this way, not only the identified and assessed risks are managed, but also the potential ones, which means applying the principle of prevention and the principle of precaution within the decision-making process.

### **2. Organisational aspects of risk management in universities**

Risk accompanies every organisation and activity. This means that efforts are needed to manage it at the strategic and operational level. In organisational terms, risk management in state universities is imposed as an obligatory under the Financial Management and Control in the Public Sector Act (Financial Management and Control in the Public Sector Act). Being part of the elements of financial management and control, it is presented in all management systems of budgetary organisations in accordance with the provisions of the Public Finance Act (Public Finance Act ).

For almost twenty years, the efforts have been focused on the development of the individual elements of the management and control systems in the public sector. The most significant weaknesses in the last decade have been identified in the field of risk management (Doklad za sastoyanieto na administratsiyata 2019, 2020). For this reason, various forums are held annually with the participation of budget organisations, especially first level budget managers, where efforts are made to integrate the process into the overall management of the organisations. In 2020, the Ministry of Finance conducted a series of initiatives that resulted in new methodological guidelines regarding the elements of financial management and control (Metodicheski nasoki po elementite na finansovot upravlenie i kontrol. , 2020), including risk attitudes ( Ukazaniya za upravlenie na riska v organizatsiite ot publichniya sektor, 2020).

One of the significant reasons for poor risk management is related to “insufficient competence or interest of decision-makers and goal-setters.” (Zafirova, 2016, p. 5). The findings made in the consolidated annual reports on internal control in the public sector are in the similar direction, namely “it

is necessary to ensure the participation of employees in trainings related to the introduction and functioning of risk management in public sector organisations in order to ensure effective and adequate risk management procedures.” (Consolidated annual report on internal control in the public sector in the Republic of Bulgaria - 2018), (Consolidated annual report on internal control in the public sector in the Republic of Bulgaria - 2017).

As it was mentioned, higher education institutions (publicly funded) fall within the scope of the provisions of the Public Sector Financial Management and Control Act, which is the main document requiring risk management to be part of the processes in public sector organisations. If for the structures of the executive authority, mechanisms for capacity building and creation of mechanisms for effective, efficient and appropriate functioning of the systems of management and control in the public sector in general, and of the risk management in particular are applied, then for the system of higher education that is not the case. There is a significant imbalance in the support approaches. Unlike all other public sector organisations covered by the law, which are systematically supported (financially and methodically) through various trainings, courses, etc., the administrative structures of universities are excluded from such support.

If we compare the process of building management and control systems in the public sector in municipal schools from the system of pre-primary and school education with such process in higher education, we will find that the former are provided with support through the first level authorizing unit – in this case the municipalities, which is both methodological and expert. In higher education, autonomy is also in force in terms of building systems and universities are left entirely to their own views, understandings and knowledge to implement risk management in the overall organisational management. However, academic autonomy does not exclude the assistance, support and participation of the first level authorizing unit (in this case the Ministry of Education and Science) in such processes.

The public sector and in particular the structures of the state administration are systematically supported by methodologies, trainings, expertise and information and communications technology solutions. The knowledge and experience gained by the first level authorizing units, such as municipalities, is transferred to secondary authorizing units, such as

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municipal schools in the secondary education system. With regard to universities and research institutions, such support is not available, neither from the first level authorizing unit, nor from branch or other organisations. In general, the training of administrative staff is insufficient for two reasons: 1. Limited number of trainings offered to higher education administrations in general, and to risk management in particular. The limited supply of training derives from the small number of potentially trainee organisations; 2. Limited financial resources in higher education, which hinder the maintenance or attraction of expertise in various fields, incl. risk management. Risk management is primarily an administrative process that involves management decisions.

The content analysis of the risk management strategies of 21 higher education institutions shows that formally the regulatory requirements are met. In addition to the strategies, there are universities that have prescribed procedures or instructions for risk management, which fully or partially cover the requirements of the Law on Financial Management and Control in the Public Sector and the guidelines of the Ministry of Finance in force until March 2020 (Nasoki za vavezhdaneto na upravlenieto na riska v organizatsiite ot publichniya sektor). In reality, however, the risk management process is rather aside from the management process. Examining the publicly available strategies and risk registers, the formal nature of these documents and the strict observance of the methodological guidelines of the Ministry of Finance stands out. The strategies are developed according to the model proposed by the department, which brings the strategy to a document of operational or procedural nature. As a structure, but also as a content, both the strategies and the risk registers at to a great extent overlap with the ones in a non-educational institution, e.g. municipal administration. Here, again the question arises as to how universal the processes of implementing the elements of financial management and control in budgetary organisations can be. Is it now necessary to specify some strategic aspects without distorting the process?

The starting point for the risk management process in any organisation is goal setting. Another question of interest here is how higher education institutions set their aims and whether these aims should be annual, as is the requirement for other administrative structures, or perhaps

it is better to be medium-term, detailed in operational tasks, which will allow more accurate and specific identification of potential risks, and hence their assessment and taking anti-risk measures. Does it need to apply strictly the bottom-up approach in goal setting or is it necessary to outline the strategic framework of the organisation's goals and to distribute tasks at different levels in a higher education institution? Is it possible for the standard classification of risks by different categories to be applicable for a road agency, municipal administration, district administration, etc., as well as for an educational and scientific organisation? There is hardly a universal approach that provides secure solutions and guarantees a high degree of management of organisational risks and, accordingly, a greater probability of achieving the goals.

The fact is that, in administrative terms, risk management is an atypical and formal process for the higher education system. Setting of annual goals is not typical, and applying the bottom-up approach to goal setting in the traditional sense may be unnecessary. However, this does not mean that workable solutions should not be sought, rather than formalising the process with a view to covering only regulatory requirements.

### **3. Perspectives for risk management in universities**

The development of each organisation goes through different stages, by successively alternating evolutionary and revolutionary stages (Simeonov, 2009, p. 574). According to Simeonov, with high maturity of organisational processes within the evolutionary stages of development, written standards, procedures, instructions, including tried and tested approaches and methods of managing the organisation in general and the risk in particular, are applied. He considers that, during the revolutionary stages of organisational development, the established standards, instructions, methodologies are not working. They limit flexibility and become a barrier to the organisation's adaptation to the dynamic changes that have caused the revolutionary change. This requires, within these stages, a non-traditional, flexible approach, helping to implement, test and document new

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standards, methodologies, procedures, etc. arising from organisational functioning and needs.

As Bogdanova points out (Bogdanova, 2016) universities are transforming their business models. Perhaps these business models also gravitate as a result of evolutionary and revolutionary stages of organisational development. The organisational frameworks for risk management are also transformed and new requirements for the application of risk management approaches specified in relation to sector and the individual higher school are assumed.

To large extent, the effectiveness and applicability of the overall risk management depends on the created organisational conditions. Several conditions, that reflect the degree of maturity of the process in the universities in Bulgaria, can be distinguished.

*Table 1. Matrix of organisational maturity for risk management in higher education institutions*

<b>Degree of maturity of the risk management process</b>	<b>Main characteristics</b>
Underdeveloped (poor) risk management	Unregulated, partial, sporadic and chaotic risk management based on individual initiative and experience. Lack of understanding of the risk management process by the majority of the administrative staff and the academic staff. Lack of organisational culture and will to implement the process in the management system of higher education. Lack of relationship between goal setting and risk management.
Fragmented risk management	Application of partial activities for risk management, but without process nature. Lack of a clear connection between organisational objectives and risk management measures. No planned response to risks is applied, lack of prevention. Aware understanding of management about the need for risk management. Risk management is carried out formally, in response to regulatory requirements, but without real practical application and benefits for the organisation.



Centralised risk management	<p>Existence of a policy and strategy for risk management in the organisation. Formal identification and assessment of risk, without taking into account organisational objectives.</p> <p>Application of standardised and routine reactions to formally identified risks, with a reactive character and very rarely with an anticipatory one.</p> <p>Lack of clear communication channels and ways to document risks.</p> <p>Management will and appropriate tone at the top regarding the integration of risk management in the activities of the organisation.</p> <p>Risk management is carried out for individual activities (e.g. projects) according to the requirements of external organisations.</p>
Systemic risk management	<p>Working strategy for risk management and real application in organisational processes.</p> <p>Risk management is integrated into the overall management of the organisation, including into operational activities.</p> <p>High degree of commitment of managers to risk management in the organisation.</p> <p>Transparent constructed risk register.</p> <p>Wide involvement in determining risk appetite.</p> <p>Risk management is a systematic and structured process with clear regulations.</p> <p>Efforts to build capacity for risk management through teaching, training, lessons learned, etc.</p>
Intelligent risk management	<p>Risk management is part of the strategic management of the higher education institution and is based on an intelligent approach.</p> <p>Different models are used to predict risk and develop response scenarios.</p> <p>Risk management is an integral part of the work processes and is based on established rules, procedures, instructions, expertise and lessons learned from the experience of taking into account the specifics of the organisation.</p> <p>Broad participation is encouraged and responsible officials are involved in the risk management process. Everyone understands their risk management commitments within the limits of the powers conferred on them.</p> <p>Risk management is closely integrated into the philosophy of the organisation, by stimulating the innovation and the introduction of flexible risk management methods.</p> <p>Risk management accompanies each work process without burdening it with resources.</p>

*Adapted from: Parashkevova, E. Integrated risk management in public projects. Profi Print, Sofia, 2020, p. 149-150.*

Currently the educational and scientific organisations in Bulgaria are in a phase of transition between the third and fourth stage according to the presented classification. They formally have the necessary documentation regarding risk management in the context of financial management and

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control systems. There is a real lack of proactivity in risk management and it does not bring the optimal effects for organisations. The dynamic change in the environment – political, economic, social, etc. combined with ongoing reforms and new requirements for higher education and research will highlight the need for flexible, intelligent, proactive risk management which will provide possible solutions and promote organisational development. For this reason, it is necessary to make efforts to provide expertise and implement approaches and models of risk management working in the specific organisation, rather than resorting to common standard solutions that create only bureaucracy and do not solve problems.

### **Conclusion**

Building an organisational culture for risk management in organisations of the higher education system is associated with “tone on top” and capacity building and organisational environment conducive to the implementation of the process. Trainings, introduction of software products and models for early diagnosis and analysis are the tools that would contribute to higher efficiency of risk management. At the same time, it is necessary to create an adequate strategic and operational framework, specified to each organisation, which, however, should not “harden the process” but provide and stimulate flexibility in the overall risk management at all levels in the organisation.

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