

IMPROVING FINANCIAL RISK MANAGEMENT MECHANISMS TO ENSURE FINANCIAL SECURITY IN PRIVATE UNIVERSITIES

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Abstract

Private universities carry a mission that is largely nonprofit and socially oriented, yet most of their income comes from tuition, which leaves them financially exposed in ways that are easy to overlook. In practice, the tools these institutions use to manage financial risk are still underdeveloped, both compared with what is expected of commercial firms and compared with how quickly the private higher education sector has grown in many emerging markets. This paper looks at the main sources of financial risk facing private universities: concentrated revenue, liquidity problems tied to the academic calendar, rigid cost structures, and risks linked to demographic change and regulation. It then discusses a set of governance, planning, monitoring, and capacity building mechanisms that can help institutions manage these risks more consistently. Instead of proposing a new measurement tool, the paper focuses on the practical, organizational steps that private universities can take to notice, track, and respond to financial risk over time. The discussion draws on the case of Uzbekistan, where the private higher education sector has grown quickly while financial risk governance has lagged behind, and concludes that strengthening these mechanisms should be treated as a necessary complement to, and not a replacement for, ongoing theoretical work on financial security in higher education.

Keywords

financial risk management; financial security; private universities; institutional governance; risk monitoring; higher education finance.

Introduction

Financial security can be understood as an institution's ability to protect its resources and pursue its goals despite the internal and external threats it faces. This ability depends not only on how strong an institution's finances look at a given moment, but on whether the institution has mechanisms in place to notice and respond to risk before its financial condition gets worse. This point matters a great deal for private universities. A balance sheet or a revenue report tells us where an institution stands today. Risk management mechanisms tell us whether the institution is able to catch a worsening trend early enough to act on it, rather than discovering the problem only once it has become a funding crisis. Financial security theory has followed a clear path over time, moving from the level of the state (Senchagov, 1995; Abalkin, 1994) to the level of the individual commercial enterprise. At the enterprise level, financial security is now widely treated as the most important part of economic security, and it is understood to depend heavily on whether an organization has mechanisms in place to protect its interests from possible threats, not simply on its financial condition at a single point in time (Bondarenko, 2018, cited in Buha, Bychin, & Ozerna, 2023; Varnalii, 2022).

Private universities have not received the same level of attention when it comes to risk management mechanisms specifically. Where private higher education institutions have been studied, most of the attention has gone to competitiveness and academic quality, including exam and admission scores, publication output, the share of foreign students, and research income (Ilyakova, Belash, & Kolmykov, 2021), rather than to the governance and procedural mechanisms that allow an institution to manage financial risk on an ongoing basis. This paper addresses that gap directly. It asks a simple question: what mechanisms, whether related to governance, planning, monitoring, or

institutional capacity, can private universities put in place to manage financial risk more systematically? The paper deliberately avoids proposing any new measurement tool or index, because mechanisms for managing risk are organizational and procedural matters, and they come before, and are separate from, the question of how financial security might eventually be measured.

Literature Review

Economic security theory describes financial security as a state, a process, or a property that allows an organization to protect its resources and economic opportunities while pursuing its goals and meeting the expectations of its stakeholders (Zaichko, 2021; Varnalii, 2022). This definition is clearly about process. Financial security is not simply a good looking balance sheet at one point in time; it is a capacity that has to be maintained through continuous organizational effort. This is why enterprise level financial security research points management attention toward preventive mechanisms, rather than toward the threat itself or its consequences after the fact (Buha, Bychin, & Ozerna, 2023). This same idea appears in general enterprise risk management theory, which treats risk management as an ongoing, embedded organizational process rather than something done periodically. The COSO Enterprise Risk Management framework, for example, defines enterprise risk management as the culture, capabilities, and practices that organizations build into their strategy and performance in order to manage risk while creating, preserving, and realizing value (COSO, 2017). The ISO 31000 risk management standard makes a similar point, stressing that risk management should be a normal part of organizational governance and decision making, not a separate function that sits apart from the rest of the organization (ISO, 2018).

Research on higher education finance has identified specific sources of financial vulnerability facing private universities, though this work does not always frame the problem explicitly in terms of risk management. A systematic review of the factors

affecting the financial stability of private universities finds that dependence on tuition and market based revenue makes these institutions vulnerable to demographic change, economic downturns, regulatory uncertainty, and competitive pressure, and it identifies governance quality and risk management practice, together with revenue structure, as recurring factors behind institutional financial stability (Americanjournal.org, 2026). Evidence from a more mature private higher education market supports this concern. Industry analysis in the United States has found that roughly one third of private nonprofit colleges and universities reported budget deficits in fiscal year 2024, and projections suggest that as many as 442 of the roughly 1,700 private nonprofit degree granting institutions in the country face a real risk of closing or merging within the next decade (The College Fix, 2026; Governing, 2026). More than 130 such institutions had already closed or merged between 2020 and 2025, a period in which close to 200,000 students and over two billion United States dollars in endowment assets were affected (The College Fix, 2026). In an important sense, these outcomes reflect failures of risk management mechanisms just as much as they reflect the underlying financial condition of these institutions, since some institutions in similar financial positions have managed to avoid closure simply by identifying declining enrollment or liquidity trends earlier and acting on them sooner.

Research on small and medium sized firms offers useful, transferable lessons about the organizational mechanisms used to manage financial risk under conditions of limited resources, conditions that many private universities also face. In the author's own earlier research on the financial security of small businesses in Uzbekistan, the internal and external threats identified, including limited financial resources, rising competition, regulatory instability, and infrastructure constraints, were shown to require a deliberate managerial response rather than resolving themselves on their own. That study also found that diversifying financing sources was a governance level policy choice, not

something that simply happened on its own (Jurakulova & Shadibekova, 2025). Similar evidence from wartime Ukraine shows that diversifying financing sources served as a deliberate resilience mechanism for small agricultural enterprises operating under severe external shocks, rather than being an incidental feature of the firms that happened to survive (Shcherbak et al., 2026). These findings support the idea that private universities, too, should treat financial risk as something to be actively and deliberately managed, rather than as a condition to be passively observed after the fact.

Before discussing mechanisms for managing financial risk, it helps to identify the specific sources of risk that private universities face, since these differ in important ways from the sources of risk that enterprise level financial security research was originally developed to address.

Revenue concentration risk. Tuition and fees are usually the main, and in many private universities almost the only, source of operating income. This concentration leaves institutions exposed to shocks on the demand side, such as demographic decline, new competitors entering the market, or a change in how much value people see in a given degree, shocks that a more diversified revenue base would help absorb.

Liquidity and cash flow timing risk. A university's cash flow follows the rhythm of the academic calendar. Tuition payments tend to arrive in clusters at the start of each term, while payroll, facilities costs, and other operating expenses accrue fairly evenly throughout the year. This mismatch between when revenue comes in and when expenses go out creates a liquidity risk that is driven largely by the calendar itself, rather than by the institution's overall financial condition.

Cost structure rigidity. A large part of a university's cost base, including academic staff salaries, facilities, and accreditation related compliance costs, is hard to adjust quickly without affecting academic quality or regulatory standing. This rigidity limits how fast an institution facing declining revenue can restore balance through cost cuts

alone, which is exactly why identifying risk early matters so much.

Demographic and competitive risk. Enrollment, and therefore tuition revenue, depends on the size of the birth cohort, secondary school completion rates, and how many new institutions are entering the market. These factors are largely outside any single university's control, and they play out over a longer time horizon than the typical annual financial planning cycle.

Regulatory and accreditation risk. Changes in licensing requirements, accreditation standards, or education policy can affect a private university's permitted enrollment, program offerings, or fee structure with little warning. Failing to comply carries consequences, including the loss of accreditation, that are far more serious than the typical consequences of regulatory noncompliance in a commercial business.

The mechanisms discussed below are organizational and procedural, not computational. Their purpose is to strengthen an institution's ability to identify, monitor, and respond to the risks described above, and they draw on a core principle of enterprise risk management: risk management works best when it is built into ordinary governance and planning processes, rather than treated as a separate, occasional exercise (COSO, 2017; ISO, 2018).

Giving clear responsibility for financial risk oversight to a board level committee or a designated senior officer, with a defined reporting line to institutional leadership, keeps financial risk on the regular governance agenda instead of something that only comes up once a problem has already become serious. This follows the same logic found in enterprise risk management, where oversight is built into governance structures rather than left to the finance office alone.

Because liquidity risk is tied so closely to the academic calendar, a formally adopted reserve policy, one that sets a minimum operating reserve measured in months of operating expenses and specifies the conditions under which it can be drawn down,

provides a buffer against the normal mismatch between tuition receipts and ongoing costs, as well as against unexpected drops in enrollment. Reducing how much an institution depends on tuition as its main revenue source, through deliberately building up research income, continuing education and executive programs, philanthropic and alumni giving, and partnerships with employers or government agencies, works as a risk management mechanism in its own right. The point here is about process, not calculation: diversification should be set as an explicit institutional goal and tracked from one budget cycle to the next, rather than treated as something that just happens as a side effect of an institution's regular activities. Extending financial planning beyond a single annual budget cycle to a rolling, multi year horizon, and combining this with scenario analysis that models the financial effect of possible enrollment declines or cost increases, allows institutional leadership to spot the point at which a worsening trend would threaten financial security while there is still time to respond, rather than only noticing the problem after that point has already passed. Regularly reporting a small number of key financial indicators, such as enrollment compared with projections, cash position compared with the reserve policy, and the share of revenue coming from the single largest source, to institutional leadership and the body responsible for risk oversight, allows emerging problems to surface through routine reporting rather than through informal or delayed communication. Keeping a dedicated compliance function, or at least giving someone in the finance office clear compliance responsibilities, to track upcoming regulatory and accreditation requirements and assess their financial impact ahead of time, reduces the chance that a regulatory change turns into an unexpected financial shock. None of the mechanisms above work well without capable staff to run them. Investing in the financial planning and risk analysis skills of the finance office, whether through training, additional staffing, or access to outside advisory support, is what determines whether these mechanisms are actually applied with rigor or simply

exist as policy documents that nobody follows in practice.

The Uzbekistan Context: A Widening Gap Between Expansion and Risk Governance. The case for strengthening these mechanisms is made stronger by how quickly the private higher education sector has grown in Uzbekistan. The number of private universities rose from 7 to 67 over the past decade, an increase of almost tenfold (The Diplomat, 2025; UzDaily, 2025a), while total university enrollment grew more than fivefold over the same period, from 264,300 students in the 2015 to 2016 academic year to 1,432,800 students in the 2024 to 2025 academic year (UzDaily, 2025b). This growth has already gone beyond the targets set out in national development strategy, which had aimed for at least 50 non state higher education institutions by 2026 (The Diplomat, 2025).

Institutions built under these conditions of rapid entry have generally had little time to develop the governance maturity that the mechanisms discussed above assume, such as board level risk committees, formal reserve policies, and multi year planning cycles. Many private universities in the sector are only a few years old, so financial risk management practice, where it exists at all, has usually developed informally rather than through deliberate institutional design. This gap is made worse by the absence of any sector wide expectation or regulatory requirement for financial risk governance. Unlike institutional accreditation, which is monitored externally, financial risk management practice in the sector is currently left almost entirely up to individual institutions.

Discussion

The mechanisms discussed above are intentionally procedural rather than quantitative. This reflects the view that, for a private higher education sector as young and varied as Uzbekistan's, the more pressing constraint on financial security is the near total absence of basic risk governance practice, such as reserve policies, multi year planning, and structured reporting, rather than the absence of a sophisticated

measurement tool. A composite financial security measure of the kind discussed elsewhere in the literature depends on exactly the kind of structured financial data and reporting discipline that these mechanisms are meant to establish in the first place. Introducing measurement before the underlying governance and reporting practices are in place risks producing a number that the institution has no real capacity to act on.

None of this means these mechanisms are easy or cheap to put in place. Smaller private universities may lack the staff capacity discussed above, and a formally adopted reserve policy competes for funding with other institutional priorities, including the facilities and staffing investments needed to maintain academic quality and accreditation standing. The mechanisms proposed here should therefore be seen as priorities to be introduced gradually, starting with the lowest cost, highest impact steps, such as governance level oversight and structured reporting, before moving toward more resource intensive steps like formal reserve funds and dedicated compliance functions.

Conclusion

This paper has argued that improving the financial security of private universities depends as much on the organizational mechanisms used to identify and manage financial risk as it does on the underlying financial condition those mechanisms are meant to protect. Drawing on financial security theory's emphasis on preventive, process based protection of institutional resources, and on general enterprise risk management principles that treat risk management as a built in governance function rather than an occasional exercise, this paper has identified several key mechanisms: governance level oversight, a liquidity reserve policy, revenue diversification as an explicit institutional goal, multi year planning and scenario analysis, structured risk monitoring and reporting, regulatory compliance management, and investment in institutional capacity. Together, these mechanisms address the revenue concentration, liquidity timing, cost rigidity, demographic, and regulatory risks that are characteristic of the private higher education

sector. In a sector as young and fast growing as Uzbekistan's private higher education market, building these mechanisms is a necessary and currently underdeveloped foundation, one that should come before, rather than after, any future effort to measure private university financial security in a composite or quantitative form.

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