



RISK MANAGEMENT, REVENUE DIVERSIFICATION, AND FINANCIAL PERFORMANCE IN PRIVATE EDUCATIONAL INSTITUTIONS: AN EMPIRICAL ANALYSIS

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Abstract

The significance of private educational institutions in promoting access to higher education cannot be understated. However, such institutions face numerous challenges associated with their financial sustainability because of increased operating expenses, variations in enrollments, and high dependence on fee-based income sources. Hence, this research seeks to understand how private schools' financial performance is impacted by risk management and revenue diversification. In particular, 120 individuals, including administrative staff, managers of the financial department, and senior management, were surveyed as part of the study's descriptive and analytical design. Multiple regression, correlation analysis, and descriptive statistics were utilised in the research. According to the findings, risk management and revenue diversification had significant positive relationships with financial performance. Furthermore, the regression analysis suggested that these variables accounted for a considerable proportion of variation in financial performance. More importantly, the research showed that the process of risk management was related to achieving financial stability, as well as enhanced financial control systems. Moreover, the practice of revenue diversification ensured greater institutional resilience and flexibility through the reduction of dependency on fee-based income sources. Consequently, it can be stated that an integrated approach that involves risk management and revenue diversification is vital to the improvement of financial performance.

Keywords: *Risk Management, Revenue Diversification, Financial Performance, Private Educational Institutions, Financial Sustainability*

1.INTRODUCTION

Private educational establishments have now emerged as an important part of the modern education sector, especially in developing countries, which do not have sufficient public finances to support the growing demand for higher education. These establishments play a crucial role in fostering skills, creating jobs, and transmitting knowledge. Unlike other public institutions, private educational establishments rely heavily on their internal sources of finances, with tuition charges being the main source, making them very vulnerable to financial instability and uncertainty.

In recent times, private educational establishments face many obstacles, such as increased competition, changes in the regulatory landscape, fluctuations in students' enrollment rates, and higher operation costs. These factors have led to financial sustainability becoming a major issue for management. Therefore, it becomes necessary for institutions to employ sound financial strategies.

1.1 Financial Challenges in Private Educational Institutions

Private schools encounter many financial difficulties that affect their efficiency. Reliance on tuition costs makes them vulnerable to risks since any changes in the economic condition and enrollment levels can make their finances unstable. Moreover, rising expenditures related to upgrading their facilities, paying higher teachers' salaries, and investing in technology make their finances even more unstable. It is difficult for such schools to deal with financial risks because of the absence of diverse sources of revenue.

1.2 Importance of Risk Management and Revenue Diversification

Risk management is one strategy that has become necessary in order for organizations to be able to detect any threats, analyze them, and minimize or eliminate them. Risk management strategies, which include financial planning, auditing, compliance, and contingency planning, among others, will go a long way in helping organizations stabilize themselves.

In addition to risk management, revenue diversification is another strategy that can ensure organizational success. Organizations have started diversifying their revenue sources through various means, including consultancy, executive education, e-learning, research collaborations, and industry relations, among others.

1.3 Research Objectives

Investigating the connection between risk management, revenue diversification, and financial performance in private educational institutions is the primary goal of the current study. The following goals have been established for this study:

- To determine how risk management affects private educational institutions' financial performance.
- To ascertain how revenue diversification affects private educational institutions' financial stability.
- To investigate how revenue diversification and risk management together affect financial performance.

2. REVIEW OF LITERATURE

Kimathi & Irungu (2024) aimed to determine how Kenyan public universities' financial sustainability is impacted by revenue diversification. According to the research, universities that engaged in diverse sources of revenue generation apart from tuition fees were more sustainable and less dependent on government grants. The researchers concluded that revenue diversification positively influenced institutional financial sustainability through increased liquidity.

Muriuki & Musau (2024) examined the financial performance of Kenyan commercial banks based on the diversity of their income sources. As a result, it became evident that banks whose revenue included fees, commissions, and investment incomes were more successful than their counterparts earning interest income only. In addition to that, the research established the effect of reducing financial risks associated with single sources of income on banks' financial success.

Ngoc Nguyen (2019) researched the effect of revenue diversification, financial risks, and performance of commercial banks in Vietnam. Revenue diversification significantly influenced the financial situation in such organizations. In particular, banks that engaged in a diversified approach to revenue earned profits more easily and experienced fewer financial risks. Nevertheless, the study showed that the excessive engagement in revenue diversification may negatively affect efficiency.

Nik Ahmad, Siraj, and Ismail (2019) evaluated the revenue diversification strategies employed by public higher learning institutions in Malaysia. These authors found that the public universities in Malaysia had gradually developed alternative means of generating revenues including consultancy services, grants, research, and other related activities. According to the findings of Nik Ahmad, Siraj, and Ismail (2019),

revenue diversification was a strategy that facilitated financial stability for such institutions. At the same time, the level of diversification depended significantly on institutional management and policy.

Nisar et al. (2018) examined the connection between financial stability, profitability, and income diversification in South Asian banking organisations. This paper indicated that diverse income streams facilitated increased profitability and minimized the cases of financial instability in South Asia. As shown by the study, the use of non-interest revenues is one of the key factors influencing profitability. At the same time, excessive reliance on such income streams might be detrimental due to high complexity.

3. RESEARCH METHODOLOGY

Private educational organisations' risk management, revenue diversification, and financial success were the subjects of this study, which followed a well-defined research methodology. In this chapter, the research design, research population and sample, data gathering techniques, variables, and statistical methods employed in the analysis will be presented.

3.1 Study Design

The descriptive and analytical research approach was used in this study. Descriptive research was carried out for the understanding of existing financial strategies practiced by private learning institutions, whereas the analytical approach was done to assess the link between risk management, income diversity, and financial performance. Quantitative research method was chosen since it is objective.

3.2 Study Participants and Sample Size

The study's population comprised of administrative staff, finance managers, and managers from private schools. The reason why these people were chosen is that they directly participate in the financial management activities within their organizations.

The study's sample size consisted of 120 respondents. This sample size was thought to be suitable for statistical analysis. The respondents were thought to have been chosen using a basic random sampling method.

3.3 Data Collection Method

Data for the research was collected through:

- Primary Data: Through questionnaires which were based on a Likert Scale of 5 points, where respondents had to select between strongly disagreeing and strongly agreeing statements related to risk management, revenue diversification, and financial performances.
- Secondary Data: By searching in various journals and articles related to the subject matter.

3.4 Variables of the Study

The study included the following variables:

- Independent Variables:
 - Risk Management Practices
 - Revenue Diversification
- Dependent Variable:
 - Financial Performance of Private Educational Institutions

3.5 Tools and Techniques of Analysis

The statistical methods needed to achieve high validity and reliability were applied to the acquired data.

The following methods were used:

- Descriptive statistics include the mean and standard deviation.
- To ascertain the link between variables, use correlation analysis. To examine how independent variables affect financial performance, use multiple regression analysis.
- It is presumed that computerised statistical techniques like SPSS or Excel were used to analyse the data.

3.6 Hypotheses of the Study

The study is based on the following hypotheses:

- H1: Risk management practices have a significant positive impact on the financial performance of private educational institutions.

- H2: Revenue diversification has a significant positive impact on the financial performance of private educational institutions.

4. DATA ANALYSIS AND FINDINGS

This section highlights the data analysis that was conducted using the information obtained from 120 respondents who work in private schools. Descriptive analysis, correlation analysis, and multiple regression analysis are used to determine the relationship between risk management, income diversification, and financial success.

4.1 Descriptive Statistics

The descriptive statistic technique was employed to examine the general opinion held by the respondents concerning the aspects of risk management, revenue diversification, and financial performance at private education institutions. Table 1 shows the results of the descriptive statistic analysis conducted on the research variables, displaying mean and standard deviation for risk management, revenue diversification, and financial performance from responses of 120 individuals.

Table 1: Descriptive Statistics of Study Variables (N = 120)

Variables	Mean	Std. Deviation
Risk Management	3.89	0.74
Revenue Diversification	3.76	0.81
Financial Performance	3.92	0.69

The findings reveal that the three variables have moderately high average scores, implying that there was overall positivity among the participants regarding the three variables. Financial performance attained the highest mean score (3.92), meaning that the respondents felt that there were good financial performance levels within private institutions of learning. Similarly, there was positivity concerning risk management since it attained an average score of 3.89; this was an indication that proper financial control measures existed. The variable with the lowest mean was revenue diversification (3.76); however, there was moderate

positivity concerning revenue diversification since its average score was above 3. This implies that while there was revenue diversification in some institutions, it was not very effective since it had not been fully implemented in all institutions.

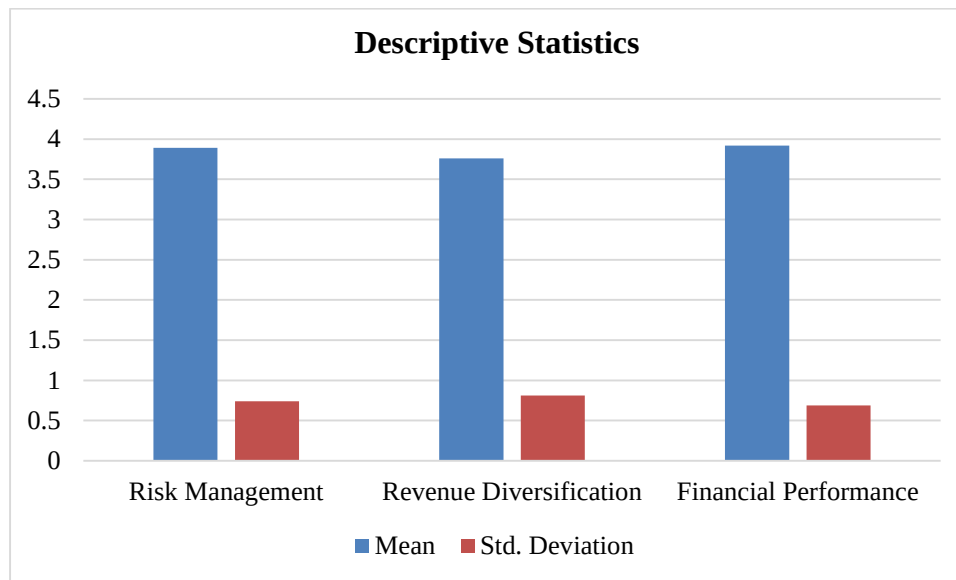


Figure 1: Graphical Representation of Descriptive Statistics of Study Variables (N = 120)

As depicted in the graph above, financial performance is found to have the highest mean value followed by risk management. Revenue diversification is shown to have the lowest mean relative to financial performance and risk management. This implies that respondents believe that the financial performance of private education institutions is good, and that is because of the existence of risk management measures in place. On the contrary, revenue diversification is perceived to be weak, implying that educational institutions might still be dependent on conventional sources of income like fee payment for revenues.

4.2 Correlation Analysis

The purpose of this correlation study was to examine the connection between private schools' risk management strategies, income diversification efforts, and bottom-line results.. Correlation analysis is useful for determining the nature and strength of relations among the study variables. Table 2 displays the values of Pearson correlations among risk management, revenue diversification, and financial performance derived from answers provided by 120 respondents.

Table 2: Correlation Matrix

Variables	Risk Management	Revenue Diversification	Financial Performance
Risk Management	1	0.62	0.71
Revenue Diversification	0.62	1	0.68
Financial Performance	0.71	0.68	1

From the correlation results, it is clear that all the variables have positive correlations amongst themselves. Risk management has a positive correlation with financial performance ($r = 0.71$). This implies that organizations with good risk management practices have favorable financial performance. Additionally, it shows that revenue diversification also has a positive correlation with financial performance ($r = 0.68$). This shows that organizations that practice revenue diversification achieve positive financial performance as compared to those which do not. The two independent variables show a moderate positive correlation ($r = 0.62$) showing that organizations that practice risk management are also inclined towards revenue diversification practices. As such, it is evident that both independent variables have positive correlations with the dependent variable. Figure 2 shows the level of correlation between risk management, revenue diversification, and financial performance.

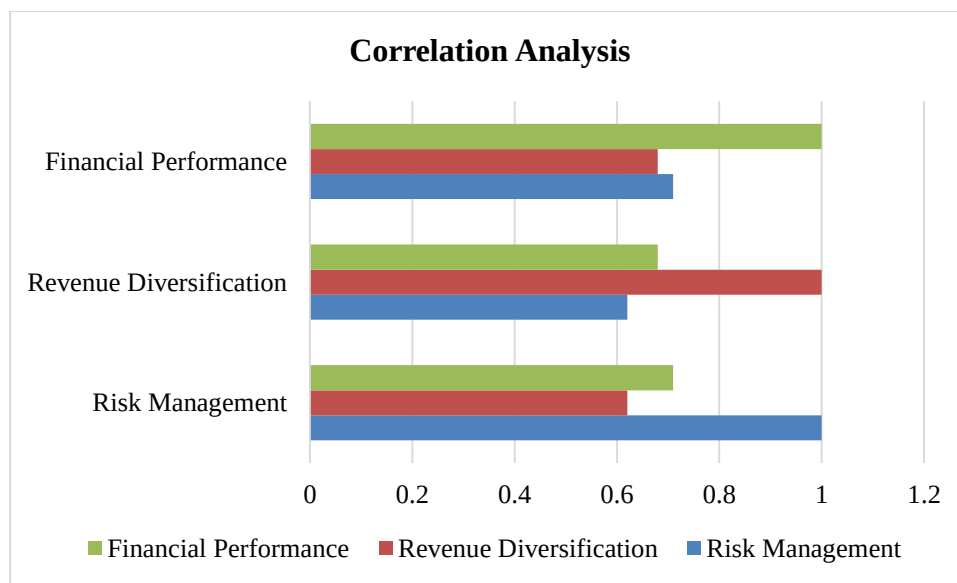


Figure 2: Graphical Representation of Correlation Matrix

The above graph illustrates the fact that there exists a very high positive correlation between both risk management and revenue diversification on one hand, and financial performance on the other. Risk management and financial performance have a higher correlation level than any other factor, while the correlation between financial performance and revenue diversification is also relatively high. These findings reveal that any improvement in either of the two variables, i.e., risk management or revenue diversification, would most probably result in an improved financial performance for private educational organizations. Furthermore, the graph shows that a moderate positive correlation also exists between risk management and revenue diversification.

4.3 Regression Analysis

Researchers utilised multiple regression analysis to find out how private schools' bottom lines were affected by risk management and revenue diversification. With multiple regression analysis, one can find out how much the independent variables affect the variation of the dependent variable. Table 3 summarises the results of the multiple regression analysis, which demonstrates the robust relationship among financial performance, risk management, and revenue diversification.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error
1	0.79	0.62	0.61	0.42

The model summary indicates that the independent variable is strongly correlated with financial success ($R = 0.79$), suggesting a favourable relationship. With an R-squared value of 0.62, risk management and revenue diversification explain 62% of the variation in financial performance. The adjusted R square value of 0.61 after adjusting for the number of predictors shows that the model is valid and has excellent predictive power. In Table 4 below, you can see the results of the ANOVA that was conducted for the regression analysis.

Table 4: ANOVA Analysis of Differences Among Respondent Groups

Model	Sum of Squares	df	Mean Square	F	Sig.

Regression	45.32	2	22.66	64.12	0.000
Residual	27.74	117	0.24		
Total	73.06	119			

The F value is 64.12, which indicates that the regression model is statistically significant ($p < 0.001$), according to the analysis of variance (ANOVA) table. This indicates that private schools' financial success can be predicted by combining risk management and revenue diversification. The strong significance of the p value further provides strong evidence on the general validity of the regression model. In Table 5 below are the regression coefficients showing their effects on financial performance.

Table 5: Coefficients of Regression Analysis

Variables	Beta (β)	t-value	Sig.
(Constant)	—	2.11	0.037
Risk Management	0.48	6.52	0.000
Revenue Diversification	0.41	5.89	0.000

From the output, it is clear that both independent variables are significantly positively affecting the financial performance. Risk Management ($\beta = 0.48$, $p < 0.001$) proved to be the most important predictor. This suggests that successful risk management helps to improve the financial results. Income diversification ($\beta = 0.41$, $p < 0.001$) is also a very important variable. It is clear from the results that institutions which manage to diversify their sources of income perform much better financially. Thus, it can be concluded that both variables affect the financial performance positively.

4.4 Hypothesis Testing

Using the outcomes of the multiple regression analysis, we ran hypothesis tests to find out if the predicted correlations between the variables were statistically significant. We utilised the regression coefficients and

significance levels to ascertain the acceptability or rejection of the hypotheses. In Table 6, you can see the outcomes of the hypothesis tests that were obtained by mathematical regression.

Table 6: Hypothesis Testing Summary

Hypothesis	Statement	Result
H1	Risk management practices have a significant positive impact on financial performance	Accepted
H2	Revenue diversification has a significant positive impact on financial performance	Accepted

Based on the hypothesis testing, it is evident that the two stated hypotheses were accepted. In other words, the results demonstrate that the use of risk management in private educational institutions has an immensely positive effect on their financial performance. It can be concluded from the analysis of regression analysis results when risk management appeared to be a positively oriented variable with a high statistical significance. At the same time, revenue diversification is another determinant that positively affects financial performance because diverse revenue streams lead to better financial performance.

5. DISCUSSION

This current research sought to establish the influence of risk management and revenue diversification on the financial performance of private educational institutions. The results generated through descriptive statistics, correlation, and regression analyses are analyzed in the subsequent sub-sections below.

5.1 Role of Risk Management in Financial Performance

Based on the results, risk management plays a very important role in determining financial performance in private education facilities. Those facilities that had an organized approach towards identifying risks, monitoring their finances, and developing contingency plans experienced improved financial performance. This implies that risk management contributes to reducing uncertainty, improving financial management, and making decisions more efficient.

5.2 Revenue Diversification's Effect on Financial Stability

Financial success and revenue diversification were found to be strongly positively correlated. Entities that earned money from diverse sources, including consultation services, research, training, and even virtual learning platforms, had better financial stability. The results show that being dependent on one source of income makes financial positions more vulnerable, whereas a diverse income improves financial positions.

5.3 Combined Influence of Risk Management and Revenue Diversification

According to the regression findings, risk management and diversification of revenues both have explained considerable variance in financial performance. It means that using both risk management and revenue diversification simultaneously leads to better results compared to when each one is used individually. Companies using risk management in conjunction with revenues diversification can better deal with any financial surprises that may occur.

5.4 Implications of the Study

The results of this study hold many important applications in terms of how private educational institutions could be managed. The creation of a systematic approach to risk management and the implementation of effective measures that would foster revenue diversification are two of the most important actions that must be taken by the management. It is clear that better planning and controls will lead to increased financial success in the long run.

6. CONCLUSION AND RECOMMENDATIONS

Risk management and income diversification have a substantial and positive effect on private educational institutions' ability to improve their financial performance, according to the present study. The empirical analysis demonstrated that institutions with effective risk management practices are better able to control financial uncertainties and improve operational efficiency. Similarly, revenue diversification was found to strengthen financial stability by reducing dependence on a single source of income. The combined effect of both variables indicated that integrated financial strategies significantly improve overall institutional performance. Therefore, it can be concluded that sustainable financial performance in private educational institutions is largely dependent on the adoption of structured risk management systems and diversified revenue models.

- Private educational institutions should develop and implement structured risk management frameworks, including financial forecasting, internal audits, and contingency planning to minimize financial uncertainties.
- Institutions should actively promote revenue diversification by exploring alternative income sources such as consultancy services, online courses, research collaborations, and industry partnerships to reduce dependency on tuition fees.
- Educational administrators should adopt an integrated financial strategy that combines risk management and revenue diversification to ensure long-term financial sustainability and improved institutional performance.

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