STRATEGIES OF BLOCKING FINANCIAL LEAKAGES IN THE MANAGEMENT OF UNIVERSITIES IN BAYELSA STATE

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Abstract

Financial leakage refers to the loss or wastage of funds within an economic system or organization. It occurs when money is spent or lost unnecessarily, inefficiently, or without generating any value in return. Reducing financial leakage requires organizations to implement effective financial management practices, improve transparency and accountability, streamline processes, and identify areas where funds are being wasted or mismanaged. By addressing these issues, organizations can minimize financial leakage and improve overall financial performance. The study examined strategies of blocking financial leakages in the management of universities in Bayelsa State. The study concludes accountability, budgeting and regular auditing and evaluation as well utilization of financial accounting softwares in payment and registration of students are effective strategies to tame and control financial leakages in the university management system.

Keywords: Blocking, Financial Leakages, Management, Strategies and University.

Introduction

Effectiveness management of financial resources in universities is vital for sustaining academic excellence, infrastructure development, and overall institutional growth. On the other hand, when the finances are not properly managed or are being misappropriated will lead to poor results and infrastructural failure in the system. Several factors could attribute to the issues, such as poor management style, poor policy implementation, lack of financial support as well as financial leakages in the system. Financial leakages undermine the successful achievement of these set goals.

Financial leakage also known as revenue leakage is the term that is used for organizations that lose revenue through financial or administrative errors. Depending on how an institution operates and the industry they operate within, revenue leakage could stem from many sources and often goes unnoticed. Revenue leakage occurs across many organizations including tertiary institution. All organizations suffer from the negative impact of unchecked financial leakage regardless of size (large, medium, or small) or type (for-profit or non-profit.). Organizations incur these hidden expenses when an insurance claim ripples through the organization, resulting in lost productivity, hampered growth, and operational disruption (Kenton, 2023).

Financial leakage in universities is as a result of administrative inefficiencies, corruption, including embezzlement and mismanagement of funds, lack of effective financial management mechanisms and internal controls, failure to optimize the use of available resources, including facilities and equipment and poor budgeting and allocation of funds to programs that do not align with the institution's mission can contribute to financial leakage. Thus, these have set back institutional goals and productivity.

Hence, preventing revenue leakage is crucial for tertiary institution because it can have a significant impact on their bottom line. In other words, mitigating financial leakage in universities requires the implementation of effective strategies.

The effective management of financial resources in universities is paramount for sustaining academic excellence, infrastructure development, and overall institutional growth. However, a pervasive challenge faced by many universities worldwide is the occurrence of financial leakages—unintentional or deliberate losses of funds that occur at various stages of financial transactions and management processes. These leakages undermine the financial stability of these institutions, hindering their ability to fulfil their academic mission and meet the needs of students and staff. The impact of financial leakage could be colossal at times. It can lead to arraignment of the sole administrator for embezzlement without his/her foreknowledge, resignation, deterioration of institutional effectiveness or activities, poor staff payment scheme, poor implementation of staff welfare programme and so on (Akinmutimi, 2015).

The problem at hand stems from a lack of comprehensive strategies to identify, prevent, and address financial leakages in the management systems of universities. Financial leakages can manifest in diverse forms, such as mismanagement of funds, corruption, inefficient procurement processes, weak internal controls, and inadequate monitoring mechanisms. Akinmutimi (2015) stated that, these issues collectively contribute to revenue losses, eroding the financial health of institutions and compromising their capacity to provide quality education and maintain essential infrastructure.

Furthermore, the absence of a systematic and proactive approach to mitigating financial leakages poses a significant risk to the reputation of universities. Instances of financial mismanagement can tarnish the image of these institutions, reducing their credibility and impeding their ability to attract prospective students, faculty, and partnerships.

This study aims to x-ray some of the strategies to blocking financial leakages within the context of universities, examining the root causes, identifying prevalent patterns, By doing so, the research endeavours to provide valuable insights that can inform the development and implementation of robust strategies to block financial leakages, thereby fortifying the financial integrity of universities and fostering an environment conducive to academic excellence and institutional growth.

Literature Review

Financial leakages also known as revenue leakages refers to money that has been earned but not collected, generally because of a lack of awareness on the part of the business. According to Kenton (2023), financial leakages is the capital or income that diverges from some kind of iterative system. It is the loss of potential revenue that occurs when a business fails to capture all of the revenue that it otherwise would have processed due to various errors. Hence, this loss of revenue can happen for a variety of reasons, including but not limited to billing errors, manual data entry errors, human error due to manual processes, contract mismanagement, fraud, and customer churn.

According to Park (2005), revenue leakage refers to the loss of potential revenue that occurs when a business fails to capture all of the revenue that it otherwise would have processed due to various errors. Hence, preventing revenue leakage is crucial for businesses because it can have a significant impact on their bottom line. Even small losses in revenue can add up over time and ultimately reduce profitability.

According to Cobham (2012), the financial impact of revenue leakage varies, depending on the industry and the circumstances. A rule of thumb, however, is that institutions struggling with revenue leakage have earnings that are 1% to 5% lower as a result. Thinking of the impact in terms of earnings, as many experts do, is a reminder that when institutions bring in revenue that hasn't previously been collected, it tends to fall directly to the bottom line.

Complex industries can feel a significantly greater impact. For instance, the complex reimbursement structures, number of parties involved and extent of unpaid bills that are prevalent in the academic sector create unique challenges for academic institutions, in terms of collecting earned revenues.

An institution whose revenue leaks are high compared to its peers may be at a disadvantage in developing new products or boosting its business. Such an institution might also have other problems associated with non-optimized cash flow, such as higher borrowing rates (Cobham, 2012).

What Causes Revenue Leakage?

An institution digging into any instance of revenue leakage will typically find either a faulty process or bad data often both. Here are the most common causes, according to AU/ECA (2015:

Manual processes prone to mistakes and inefficiencies: Manual invoicing is particularly a big problem. It means that invoices aren't created at the same time that sales are closed. When the creation of an invoice is delayed, add-on services are sometimes omitted, or the time entered for them is underestimated. Manual invoicing is particularly problematic for subscription-based and software-based businesses, which should use automated renewals as their default process.

Spreadsheets: This is a variation on the first problem, pertaining to a lack of automation. The data on spreadsheets is typically entered manually and sometimes contains mistakes or omissions. The time a person spends on a project could be underestimated and entered incorrectly, resulting in under-billing. Moreover, the information in most spreadsheets must be integrated with a billing system. This may mean further inefficiencies because of incompatible technology.

Inaccurate or outdated customer information: If data is uncoordinated or has to be pieced together from different systems, a seller may not have accurate data about how much volume it is doing with a particular customer. This is equally possible whether we're talking about a product manufacturer or someone selling digital goods or academic institutions often involve in financial transaction. To be supporting a customer with, say, 100 mobile phones or 100 digital subscriptions but only charging for 85 of them is to leave money on the table. Credit cards that have expired are another form of bad data that can lead to nonpayment or delayed payment.

Unclear or inaccessible policy information: In certain kinds of businesses, the sales function is highly dynamic, and sales people must have immediate information at their fingertips. If the information is not available on demand, a salesperson might charge too low a rate or not realize that a particular service they're including is actually an extra that should be invoiced.

Under-billing: Under-billing can be a problem when a business has a high percentage of service revenues. With an inefficient information flow, service personnel may not realize that a service they're performing at a customer site is billable. Discussions or work done back in the office to respond to a particular client request likewise may not be properly billed.

Pricing errors: This is another issue brought about by bad data. Pricing errors can take the form of promotional pricing that continues even after an introductory period ends. Another kind of pricing error that leads to leakage is when an existing customer falls below the threshold required for a volume discount but continues to get the discount anyway.

Unenforced policies, including penalty fees: Many businesses have penalties that must be paid in the event of certain customer actions like the early termination of a contract or a request for a new membership or identification card. When these penalties aren't enforced, it leads to revenue leakage.

Unnecessary Expenses: This includes spending on items or services that are not essential or do not contribute to the core objectives of the organization.

Wasteful Spending: This occurs when money is spent on items or activities that do not contribute to the overall goals or profitability of the organization.

Unclaimed Benefits or Opportunities: Failure to take advantage of financial opportunities, such as tax deductions, rebates, or discounts, can result in financial leakage.

Inefficiencies: Inefficient processes or operations can lead to financial leakage. This may involve redundant tasks, ineffective resource allocation, or poor management practices.

Lack of Budget Control: Poor budgeting practices or failure to monitor expenses can lead to financial leakage as funds may be spent beyond allocated limits or without proper oversight.

Fraud and Theft: Unauthorized use of funds through fraud or theft can result in significant financial leakage for businesses and organizations

How to Identify Revenue Leakage

An institution's executives often a CEO or a finance officer-usually have a sense of when their businesses aren't collecting all of the revenue they're due. To act, however, institutions must have more information. Three steps can help, they include:

Form a hypothesis about where the leaks are: The first-place institutions might think to look for leaks is on their top accounts. Sometimes, indeed, that's where the leaks are. But quite often the largest leaks happen not on the biggest accounts but on those that have the most complicated contractual terms. The hypothesis about where the worst leaks are coming from should be generated not just through executive hunches though such hunches are important but also by those closest to the revenue-generation and revenue-collection functions.

Rank the different leak "types" by economic value: Not every revenue leak is of equal magnitude. It makes sense for institutions to start with the leaks that are having the biggest impact. For this reason, it's important to prioritize the different leaks based on the income lost or uncollected (Joseph, 2022).

Test the hypothesis: Institutions should verify their hypotheses regarding revenue leaks. This can be done through an audit by the finance department, with help from those responsible for revenue generation. The audit would look at problems with data and processes, and it might include the re-creation of steps related to specific revenue moments.

To illustrate these three steps, consider a paint manufacturer that realizes it is under-collecting on sales to contractors. The manufacturer's first hypothesis is that contractors are getting prices below what's in their contracts; its second hypothesis is that contractors often aren't being billed for all the services they get. Through an audit, the manufacturer might realize that the unearned discounts are the bigger problem. The improvement program it would put in place (which might include centralized price quotes and the elimination of paper contracts) would focus on fixing the bigger problem first. Ensuring that all services are billed would be a second-phase undertaking.

Ways to Stop and Prevent Revenue Leakage

Reversing revenue leakage shouldn't be considered a side project; it is a core part of operational excellence. Institutions that already have the crucial qualities of discipline and self-analysis and that incorporate technology to advance their businesses, can use those things to collect previously unrealized revenue.

Balogun (2015) stated the following six ideas that may be particularly helpful.

Pinpoint the problem: An accurate diagnosis is the first step. Institutions can start by getting a sense of where revenue leaks tend to happen in their industries. They should also ask employees who are in revenue-generating positions if they have any ideas about how and where revenue is leaking out. As noted in the "How to Identify Revenue Leakage" section, the problems are not always where one would expect.

Fix workflows around leaked revenue: Most workflow issues can be addressed. Whether it's a confusing mix of price sheets or an organizational structure that enables excessive discounting, there's generally a fix. Small and medium enterprises might not fill up a conference room whiteboard with process maps and yellow stickies as they work their way through workflow issues, but they can often come up with solutions to workflow problems quickly because of the speed at which they move. For instance, if there's evidence that service reps aren't billing for everything, they do at customer sites, a institution could use an average-time-per-service estimate to spot potential instances of unbilled or underbilled services. That increased scrutiny alone a small change would likely result in the recapture of some previously leaked revenue.

Replace manual processes with good software: Technology can address many of the issues that lead to revenue leaks, and good software is available to assist or automate virtually any manual business process. A good software program will make it possible for service staff to fill out a timesheet on a mobile device within minutes of having completed their work, which typically reduces billing errors. Software can also put knowledge management systems at the fingertips of anyone selling services, allowing quotes to be quickly and accurately generated. And software can help automate the creation of certain invoices, reducing the problem of late billing or under-billing.

Hold the line on pricing: Salespeople with broad autonomy to offer discounts can impede the end goal of revenue maximization. Another thing that doesn't help is lax enforcement of contract terms. Institutions must have clear, effective rules to begin with, and they must enforce those rules another thing they can sometimes do systematically through software.

Task a single individual with revenue assurance: It's relatively uncommon for institutions to assign full-time staff to revenue assurance: 59% of institutions don't do this, according to the Boston Consulting Group survey. The proportion of small and medium enterprises with no full-time revenue assurance staff is likely even higher. However, even at smaller institutions that don't have a budget for billing analysts, it may be useful to make revenue assurance part of the brief of a senior executive. Someone in finance may have the right mix of authority and expertise to perform this role.

Centralize timesheets: This is especially important for service institutions, where revenues earned are often dependent on billable hours. To increase the odds of getting accurate and timely information, institutions can program their billing systems to send automated reminders.

Financial management system in schools

Every organization, whether government or non-governmental, has ways of planning and controlling finance. The concept of finance in educational institution is much different than conventional business or profit-making organization. The educational institution looks at finance from a different point of view. They consider financial functions as a basic activity to manage funds for development and maintenance of institute (Hu, 2009). The school (higher institution) as a formal organization manages funds generated through students' school fees, faculty and departmental levies for the maintenance of structures and the general development of the school.

Financial leakage block in university management

Accountability

Organization whether it is profit making or non-profit making need the services of an accountant, Accounting which is the process of recording, classifying, selecting, measuring, interpreting and communicating financial data of any organization to enable the organization make assessments and decision. Dury (2018) opined that accounting on its own has to do with the analysis and recording of financial transactions and the ascertainment of how such transaction affect the performance and financial position of a business. This has revealed the need for universities to ensure proper financial management techniques application. Also, the major principles governing the formal organizational relationship of accountability are that of single accountability and unity of command. It means that proper accounts should be made by all subordinate to one superior and financial instructions should be adhere to (Dury 2018).

Budgeting

Budgeting is one of the management techniques that are expected to be used in universities for effective administration. Budgeting is the process of creating a comprehensive financial plan that outlines anticipated income, expenses and resource allocations within a specified timeframe (Kenneth, 2012). It enables the alignment of HR strategies with the overall organizational goals, ensuring effective utilization of resources, and facilitating informed decision-making. A budget system consists of planning, implementation and control.

Auditing and evaluation

Auditing is the act of conducting an audit. Many researchers and accounting professional bodies have given diverse descriptions and definitions to the word audit. In a layman's language audit can be said to be an assessment, review or inspection of financial documents in consonant with business operation. Unegbu and Obi (2012) defined auditing as the system put in place by management of an organization to guarantee strict adherence to stipulated work directives and support the management in effective running of the organization's administration, cost control, and ensuring maximum operation of capacity and benefit accessible for the organization. Auditing assist in proffering solution to the re-occurring problem of accountability and reliability in most universities. It prevents and identifies errors, frauds and also produces a report of the true and fair view of the financial statement at the completion of the audit. This has resulted in comprehensive procedures and in the need to ensure that the organizations' policies and basic accounting controls are observed at every aspect of the institution.

Utilization of automated system

Many organizations rely on spreadsheets to manage projects and time tracking for their employees. This manual process can be extremely cumbersome, creating a significant amount of administrative work to ensure that timesheets are filled out correctly and submitted on time. Additionally, having a manual system means that past data is harder to access, meaning that you could be losing valuable information that could better your future performance as an organization. Tracing and blocking financial leakages can be challenge, however, with the use of automated system in financial transaction can help to checkmate the invoice and payment management system. Some of the account softwares that can be used in payment systems. FreshBooks, QuickBooks, Xero, NetSuite, Sage, Zoho Books, Wave, Zoho, Sage 50cloud, Kashoo, Melio, SAP, ZarMoney, AccountEdge, BlackLine, QuickBooks Enterprise etc. If the softwares are used for financial transaction, it will automatically generate invoice number (transaction ID), rather than manual writing of invoice which can be skipped at times.

Conclusion

The study examined strategies of blocking financial leakages in the management of universities in Bayelsa state. Financial leakage is a very serious bottle-neck in the management of universities in Bayelsa State. From the literature it is clear that, accountability, budgeting and regular auditing and evaluation as well utilization of financial accounting softwares in payment and registration of students are effective strategies to tame and control financial leakages in the university management system.

Suggestions

Based on the outcome of the findings, the following suggestions ere made:

1. The accountant of the institution should engage in training and retraining of their accountants to enhance their level of accountability and financial reporting.
2. University management should have strict budgeting system and adhere to it in other to checkmate financial transactions and consequent leakages in the management of university.
3. While expecting the university management to employ accounting software in registration and payment of fees, the management should engage in regular audit and evaluation in a bid to eliminate financial leakages to the barest minimum.

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