

RISK MANAGEMENT IN THE INTERNATIONALIZATION PROCESS – A CHALLENGE OF ENTREPRENEURSHIP IN ROMANIA

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Abstract: *The financial and economic crisis which has created severe imbalances in economic agents' activity is officially obsolete. According to statistical data provided by Eurostat, in the first quarter of 2015, the Romanian economy had one of the strongest growths in the European Union. However, unemployment remains a topical issue and the strongest effects are felt among young people. The development of the entrepreneurship is a necessity in order to assure the sustainability of the Romanian economy by creating new jobs, encouraging consumption and the implied growth of living standards. But efforts cannot come only from government agencies but from economic agents as well. It is essential for companies to improve their management systems if they want to grow and become sustainable pillars of the economy.*

Getting performance under current conditions specific to market economy is conditioned by the ability of the management to properly manage the internal and external risks. The pressure of the competition can determine a company to look for other markets; however, the presence on the foreign markets can prove to be a real challenge for the Romanian companies unless they integrate risk in their management policy. Based on these considerations, the aim of this paper is to highlight the main business risks, which can cause serious problems for a company during the internationalization process, as well as mapping of coordinates having a preventive role, which may contribute to the improvement of risks management measures in case of a company.

Keywords: *international business, international management, internationalization process, risk management, Romanian entrepreneurship*

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Introduction

The contemporary economy is characterized by a strong emphasis of the economic, political and social interdependences, and this became a certainty. Although at the international level we can identify forces which oppose to the

globalization amplification, it is quite obvious that we operate by written or unwritten rules generated by the global economy operation mechanisms. The economic entities, whether it comes to small or large companies with experience in the activity field, encounter on the daily basis various aspects of the socio-economic life generated by the evolution of the global business environment. Thanks to, or by cause of – depending on the standpoint – the amplification of these dependencies, the international business environment has become the most important "*supplier*" of risks that influence the behaviour of the economic agents. **Business risks**, although perceived differently by companies depending on the organizational culture and the value system specific to each area, **represent an important component of the economic activity**. Therefore, they should always be included when formulating a viable business strategy.

The current economy is a market economy and is supported by the economic agents' activity. The unprecedented development of the competition throughout all the economic sectors has improved the ability of the entrepreneurs to capitalize on opportunities, so that they create competitive advantages. Even if starting a business involves logical phasing of managerial activities, starting with clear goals and ending with the selection of markets and business partners, in a market economy, businesses are not run according to a unitary pattern, where all actors operate in an identical manner. The complexity of the economic environment inherently generates the need to adapt the stages of a business, especially under the pressure of the risk factors. Business risks are numerous, however they will be increasingly more and we will encounter them in all economic activities under various forms. Scientists warn that the variability of business risks is very high and it ranges from the risks based on natural causes up to ethnic conflicts, large fluctuations in inflation or legislative changes that could significantly affect the activity of the companies (Căprărescu et al, 2007:203)

The likelihood of some events which could create imbalances in the activity of the companies has increased significantly, especially since the economic shock in 2008. In this context, the risks have become closely monitored and integrated within the management policies. The famous American businessman Mark Zuckerberg talks about contemporary society as about a continuously changing one and notes that "*the biggest risk ... is not taking any risk ... In a world that is changing really quickly; the only strategy that is guaranteed to fail is not taking risks*".

The issue of properly managing the disturbance factors coming from the internal and external environment should be a priority for the senior management of the companies. Making decisions under risk conditions, especially in case of internationalization, involves overall vision, strategic thinking and creating a state of balance in all functions of the organization.

The intervention method of the company management is crucial, being known that the profitability of a business is directly proportional to the degree of

risk borne by the company, depending on organizational capacity. Some authors claim that "*most of the economic agents establish their risk management measures depending on the anticipated profitability taking into account the reduction of the losses and the additional expenses in case of risk occurrence*" (Mandu and Nicolau, 2010:4). If we analyse from this perspective only, nowadays we can identify three types of companies: bankrupt companies, companies struggling to subsist and companies which took risks and became successful.

Romanian business environment. General considerations and development prospects under risk conditions

A survey carried out for 2015 by The Economist Intelligence Unit¹ illustrates Romania as one of the countries with a relatively stable business environment. Analysing various economic aspects, in terms of business risks, analysts include Romania in the list of countries that have a low risk, especially when referring to security risks. We report below the overall results in order to have the general conditions under which economic agents operate in our country.

Table 1: Country risk ratings

Overall assessment of risks in Romania	Score	Rating
	37	B
Security risk	18	A
Political stability risk	30	B
Government effectiveness risk	61	D
Legal & regulatory risk	45	C
Macroeconomic risk	40	B
Foreign trade & payments risk	18	A
Financial risk	42	C
Tax policy risk	31	B
Labour market risk	46	C
Infrastructure risk	38	B
Note: 100 points (E) = most risky		

Source: http://viewswire.eiu.com/index.asp?layout=RKcountryVW3&country_id=650000065

In the above figures, we can see from that Romania is not perceived as a country with high degree of risk. However, there is some uncertainty among investors, whether domestic or those who come from other countries and

¹ The Economist Intelligence Unit is the research and analysis unit of The Economist Group and was founded in 1946. By its publications and reports it had a significant contribution to making the global business environment more transparent, thus helping companies and national governments to understand how the world changes and how business opportunities arise from these changes, but also how to manage the business risks (<http://www.eiu.com/home.aspx>)

manifest their desire to develop on the Romanian market. There are certain aspects such as **excessive bureaucracy, high degree of fiscal requirements, poor infrastructure or political instability** that affect economic organizations in a negative way. Although having a low degree of risk, increasing consumption and resources that can make the Romanian business environment an optimal investment climate, these issues often turn into major obstacles when developing business in Romania. The excessive bureaucracy and the legislative complexity encumber the activity of the Romanian companies. Entrepreneurs often face the situation where they do not know what law is currently in force. There are numerous legal regulations supplemented by emergency ordinances, additions or modifications. Although they are often a consequence of government decisions to streamline the systems, experience has shown that sometimes the effect was contrary.

Some analysts indicate that the Romanian business environment is highly politicized, which prevents the development of a contractual culture that could encourage entrepreneurs and contribute to the economy development (Coșea, 2012).

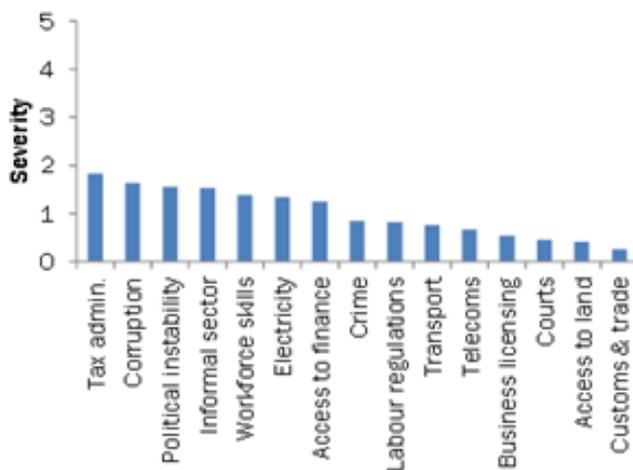


Figure 1 - Business environment obstacles in Romania (BERD, 2015)

Unfortunately, these problems are not new to our country and are reported in numerous international reports. The latest study published by EBRD² and World Bank also identifies tax administration, political instability and corruption as the biggest problems encumbering the business activities.³

Another aspect that we would like to highlight is related to the **professional skills of the workforce**. Unfortunately, waiving wage policy which encouraged

2 EBRD – European Bank for Reconstruction and Development

3 <http://ebrd-beeps.com/wp-content/uploads/2015/07/BEEPSV-complete.pdf>

incentives depending on performance and studies had a very serious consequence for the Romanian business environment. One of the main strengths of Romania was the cheap and qualified labour. Currently, there is, especially for the young, a tendency to abandon the university studies or various programs or vocational training, and this is serious because we will end up having a poorly trained workforce.

Another less favourable aspect for Romanian entrepreneurs is the significant competition of companies with foreign capital which anticipated the development potential on the Romanian market.

The issues illustrated above certainly represent a challenge for the Romanian entrepreneurship. Therefore, the fact that Romania has one of the lowest rates of business start-ups sustainability for the European Union does not come as a surprise.

In this context, what can the Romanian companies do in order to be performing? Exiting the Romanian economic area could be a viable solution, but the internationalization process involves strategy and the increase of the risk tolerance.

Sometimes the fear of failure turns into a barrier to profitable business. Although internationally the competition is significant in all the fields, Romanian entrepreneurs are generally creative and can capitalize on new opportunities. It is necessary to simultaneously fulfil certain basic conditions such as seriousness, foresight, careful monitoring of the economic variables that may generate risks for the company and obviously the development of the capacity to accumulate information.

Romanian companies' internationalization – solution to improve organisational performances

EU integration has brought multiple benefits to Romania and contributed in a clearly evident manner to the development of our country. Opening national markets and removing the barriers have led to increased competition between companies, and this has led to increased supply and demand of goods and services at low prices (Costea-Dunărințu, 2014:147).

However, the liberalization of the border movement of goods, services and capital proved to be a challenge for domestic companies. The activity of the Romanian entrepreneurs was for years encumbered by the previously presented factors. In the context of open borders, the lack of coherent legislation that would significantly encourage and support local producers represents another negative aspect. However, we can look on the bright side. Romanian entrepreneurs can also be present on other markets and make profits and then forward them to the national economy.

The operation modalities at the international level are numerous. Romanian producers or service providers may choose the most advantageous method according to organizational capacity and opportunities identified. The export operations are still the most common especially because they offer multiple advantages, and the investment is minimal.

If we consider that the internationalization process involves making strategic decisions with long-term repercussions, we can say that it requires special attention. Each stage of the internationalization process involves risk, especially for companies that do not have much experience in foreign trade. Subsequent to **identifying the existing opportunities in foreign markets**, the next step must be **the assessment of the risks related to the internationalization process** (Militaru, 2009).

Main risks in the internationalization process

In the internationalization process the risk can be perceived as that threat that an event or action may affect a company's ability to operate properly or to meet its strategic objectives (Dinu and Rujan, 2011:17).

In the internationalization process it is essential to appropriately monitor the two fundamental components of business risk: *the likelihood of an event* and *the consequences of this event with respect to the results of the company* (Dinu, 2014:42). The internationalization of the company involves the assumption of two categories of risks: the *microeconomic risks* which can be easily monitored by means of an efficient management and the *macroeconomic risks* which can sometimes be difficult to predict.

Microeconomic risks may influence the strategic planning of the international activity, and hence starting under the "domino effect" a series of events that usually creates imbalances at the company level (emergence of organizational conflicts difficult to resolve, difficulties generated by inappropriate filtering of information, improper delegation of tasks, etc.). These require attention because they can be identified in each function.

Macroeconomic risks or external risks as we find them in the literature are difficult to control. The degree of difficulty is directly proportional to the stability of the environment in which the company operates. Examples of external risks are multiple: political risks, economic risks, risks related to existing infrastructure, labour quality, legislative or economic instability etc.

The current phenomenon of the Muslim population migration towards Europe will increase the degree of socio-cultural risk. We believe that the Romanian companies (and others) will significantly increase the risk of severe ethnic conflicts, if the phenomenon is amplified.

It is erroneous to think about the future in terms of reducing business risk. On the contrary, they will increase, which involves improving managerial control and monitoring systems.

Risk management in the internationalization process - challenge or opportunity for Romanian entrepreneurs?

In the current economic and geopolitical context (conflicts on political criteria being most commonly encountered), the increase of the companies' financial performance is dependent on the efficiency and effectiveness of the management system and the risk cannot be excluded from the strategic vision of the management.

It is considered that a manager that is reluctant to take risks should not work in business or management. (Militaru, 2009:72) Although appropriate risk management is not easy to accomplish, by means of an efficient management, the way in which a risk is treated can turn into a main strength for the company. Macroeconomic risks affect all economic actors operating in the same market. Senior management of the company is required to transform any prejudice cause by the occurrence of an event unfavourable to its direct competitors.

In international affairs, **risk management** is a well-defined process involving a number of complementary stages such as *the identification, evaluation, analysis and economic control* of the risks. Romanian companies that want to be present on other markets should not overlook any stage of this process.

Conclusions and proposals

If approaching strictly from the business risk perspective, we cannot say that the Romanian business environment is a highly turbulent environment or one that can cause serious problems in the activity of a company. Studies have shown that Romanian entrepreneurs have an average tolerance for risk, but have the potential and ability to work above the European average. However, it is important to know how a company can take advantage of the changes of the international business environment.

Romanian entrepreneurs can improve the **risk management** by implementing effective risk management strategies.

We consider that in case of companies wishing to internationalize their business it is essential to establish a **committee of monitoring the risks**, especially those of the host country. The management may determine certain variables of interest to the company, variables that can be included in regular reports. In addition to this, the elaboration of well-documented prognoses will

help the company to adopt appropriate behaviour depending on the likelihood of a particular type of risk.

Another solution that can be identified and used mostly in the companies inexperienced in foreign markets is to **avoid risk situations**. Measures may be taken in this respect. For example, the existence of additional funds may take a company out of collapse when it copes with unforeseen events.

The risk management can become really challenging for Romanian entrepreneurship if not given the due importance to the risks themselves and if it does not improve its reflex to intervene quickly in adapting their strategies.

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