CONSIDERATIONS REGARDING THE COUNTRY RISK MANAGEMENT

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Abstract: *For success in business, every company must find appropriate ways of managing the risks. The correct management of the risk leads to the minimization of potential losses and finding new opportunities on the international markets. The analyze is more rigorous on the country risk factor, that is a base component of the general risk in the international business. These paper has the intention to analyze which are the risks that a company is subject on an international market.*
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1. Introduction

Any organization can face a crisis situation that can endanger its normal functioning and survival at the international market. The open trade, the free cash flow, the cooperation in development, are very debatable subjects in the contemporary economy. The last decades have caused new challenges to the industrialized world. So new opportunities came on the international markets, by the emerge of new markets, new demands, new behaviours for the companies that are focused on success. Day by day the international horizon is widening, the information's become incomplete and harder to find, the environment where the economic activity is happening becomes more and more risky. The activity of a multinational company will be influenced by lots of variables like endogenous and exogenous that can be risk factors. Before you can enter on a foreign market, you must identify the risks that can appear, you

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must eliminate or reduce them as much as possible, and agreeing only those that affects the company activity as little as possible.

Near globalization, also the impact of unique European market over the economic environment of companies and of their behaviour could generate risks. Specialists include in this class of risks more situations generators, precisely: dynamism of economic growth is not the same in all members countries because of structural engineering particularities of the economies and of obstacles at appearance and propagation of productivity incomes; pressures exercised over enterprises to reduce their costs and deflate prices and profits; appearance of oligopoly market structure and even of monopoly; possibility of trigger of function of such “perverted” mechanisms who finally leads to reductions of incomes, of social protection and increasing of difficulties refers to labour. (Dragomir (Ştefănescu), C., 2008). This different levels of economic development may create the risk of a new "curtain" in the farthest eastern and southern Europe between rich and poor (Petrescu, I., 2004).

2. Understanding of the concept of risk

Origins of the risk term can to be found in Latin (riscum) which have both positive and negative connotations, referring both to the chance of loss and win (Pânzaru, S 2014).

As for the most spread one, most of the approaches refer to the possibility of facing an event that can negatively influence the accomplishment of the aimed objectives (Dragomir, C., 2012).

Risk is the probability of adverse effects due to the materialisation of a risk. Risk involves the idea of potential loss (of any type), generated by an evolution of a factor in the decision-maker opposite expectations. Defining risk involves three essential elements: the time it is considered that the risk will materialize, probability and measure its effects.

The risk within the business management is a multidimensional notion difficult to quantify. Usually, the obtained results are proportional to the risks undertaken. The large gains are associated to high risks (Dragomir (Ştefănescu), C., 2012).

This concepts’ analysis starts from the crisis that is defined as a period in a system’s dynamics characterized by the severe accumulation of difficulties, by the conflictive irruption of tensions, a fact that makes it extremely difficult to normally function. This triggers extreme pressures towards change and crisis management that can be easily understood as an extremely complex process

that involves organization, planning and precise measures in order to control the crisis, to stop its evolution and to project an acceptable solution. Thierry Pauchant (1992) defines the organizational crisis as an interruption that physically affects the entire organizational system's functioning and threats its fundamental principles, its identity and reason for being.

Considering that the risk in business is a too complex and variable phenomenon as to be approached from a single perspective, several authors take into consideration its positive side. Nowadays, there have appeared new theories, which have imposed a new perspective in approaching the risk in business, with a focus on the possibility of generating opportunities in the context of a correct management, based upon adequate strategies. There are risks that managers assume hoping to obtain a future profit or risks that do not assume the possibility of winning (Dragomir (Ştefănescu), C., 2012).

Country risk is due to political, economic and social adverse evolves each country's economy (Nicolescu, O., 2011). Country risk is an aggregate indicator of specific risks functioning of the political, economic and social in a national sovereign and independent, they are applied strategies, policies and decisions with different efficiencies. For an international investor, country risk means the probability that the country wants to do business, to face economic, social and / or serious political or natural disasters. The size of country risk rated by international agencies established (eg Moody's) is higher, the attractiveness of the country for business is lower, credit costs higher international, foreign direct investment and indirect lower. Country risk is a factor underlying the strategies and economic policies at national, sectoral, economic agents etc.

Country risk analysis rests on the fundamental premise that growing imbalances in economic, social, or political factors increase the risk of a shortfall in the expected return on an investment (Duncan, H. Meldrum, 2000).

The risks faced by transnational firms are more complex and diverse than those faced by firms that have limited domestic market.

Country risk broadly be defined as "potential financial loss due to problems arising from macroeconomic phenomena and / or political events in one country"(Munteanu, C., 2005).Country risk is the risk of losses due to the materialization of political and macroeconomic situation and developments in a country. Losses are not actual losses, they can only be loss of opportunities.

Country risk is the probability of losses materialize. Therefore the main objective of country risk analysis is to minimize potential losses. These losses calculated as the difference between expected revenues to achieve and actually

may be due to loss of opportunities (due to temporary blockade of funds by the host government), additional costs (funds allocated to reduce or avoid negative effects of risk country) or actual losses (capital investments that can not be recovered from the host country).

Country risk arises as a result of default or subsequent refusal to honor debts. Long-term ability to pay a country is based on fundamental characteristics of its economy (economic structure, quality of economic management, the external debt, balance of trade) and political factors (structure and political situation, the government and the country's image, confidence domestic and foreign creditors in that government).

3. Forms of manifestation of country risk

There are a variety of forms of internationalization on the firms wishing to enter foreign markets. Depending on the aims pursued and the risks assumed, international firms are classified into:

- "Search the market";
- "Detectors strategic assets";
- "Seekers of efficiency";
- "Seekers of resources".

Country risk is a complex concept that covers all the risks inherent in equity investments abroad. Country risk is closely linked to the other two concepts: sovereign risk and transfer risk.

Sovereign risk, transfer risk and country risk are usually grouped into the concept of *country risk.*

4. Country risk assessment

The emergence of country risk occurs as a result of economic developments or as a result of adverse political situation for their quantification using a series of indicators. Country risk assessment for foreign direct investment is made in several stages: information on current political and economic situation in the host country, the risk factor and development indicators system, build the matrix of the country by shaping the system of indicators, calculation of the index country risk formulation based on country-risk index of strategic alternatives that include elements of risk management.

Country risk analysis methodology presents a flexible, adaptable to the characteristics of each country. Country risk analysis has two aspects: on the one hand some indicators are studied in order to achieve comparability of risk

for different countries, on the other country risk analysis should take into account the specific conditions of each state.

Analysts have tended to separate country risk into the six main categories of risk:

1. Economic Risk;
2. II. Transfer Risk;
3. III. Exchange Rate Risk;
4. IV. Location or Neighborhood Risk;
5. V. Sovereign Risk;
6. VI. Political Risk.

Many of these categories overlap each other, given the interrelationship of the domestic economy with the political system and with the international community. Even though many risk analysts may not agree completely with this list, these six concepts tend to show up in risk ratings from most services (Duncan, H. Meldrum, 2000).

Country risk analysis is not feasible as the very different types of countries. It is recommended to facilitate the creation of a working model uniformly applicable to a group of countries that have similar political and economic characteristics. Thus states of the world can be divided into five categories: industrial countries, newly industrialized countries, primary product exporting countries, countries with economies in transition (former communist countries) and low-developed countries (Munteanu,C. 2005). This grouping that country provide better assessment of country risk, by exploiting the specificities of each country.

Risk characteristics for each type of country are as follows:

1. Industrial countries;
2. Newly industrialized countries;
3. Exporters of primary products;
4. Countries with economies in transition;
5. Underdeveloped countries.

There are two main categories of risk factors: economic factors and noneconomici. Economic factors may be internal and external, and those noneconomici - political and social

Internal factors and economic indicators of country risk:

Elements of the state of national economy:

1. Sectoral factors;
2. Elements of the internal market dimension;

3. Elements of the financial situation of the host country;
4. Geographical factors.

External factors and economic indicators of country risk:
1. Elements of the host country's foreign trade situation;
2. Elements of foreign indebtedness;
3. Factors related to foreign capital attracted;
4. Factors arising from the external balances and exchange rate.

Factors and indicators of country risk policy:
1. Form of government;
2. The current system of political parties;
3. Political figures;
4. Stability and continuity of government policies;
5. The state and its institutions;
6. Control mechanisms.

A model of country risk analysis is based on the following:
- Assessment of specific risk factors;
- Determine the likelihood of materializing the country risk;
- Awareness that, whatever the number of factors considered, the risk is a random variable whose occurrence can not always be anticipated. It can be anticipated when the occurrence or intensity and the real consequences of the event considered to be a risk.

The main methods of assessing country risk are: formal methods, statistical methods, analysis based on scenarios, early warning systems, studies the country.

5. Rules of country risk management

Risk manifests permanently and amplifies in essentials moments. Just for this, in confrontation with business risks is necessary that managers to manifest a strong enterprising spirit, to adopt decisions in a short time, to elaborate anti-risk measures, moulding permanently the behaviour in face of multitudes of risks which may appear in managerial activity (Dragomir (Ştefănescu), C., 2008).

Country Risk management is all measures taken by companies intending to penetrate foreign markets for the removal or decrease. Its main purpose is to reduce the vulnerability of the company at the changes taking place internationally. Theoretically this work is done in four stages (Bannister & Barventti, 1981):

- Identify risks;
- Risk assessment;
- Treatment of risk;
- Financing risks.

At a firm level risk manager's role can be summarized as follows (Peacock, C. & Peacock, L., 1999):

- Risk management at enterprise, involving identification, assessment, avoidance, reduction and control, residual risk financing;
- Recording and dissemination of information on accidents and their favorable circumstances, taking preventive measures;
- Coordinating the efforts of all specialists of various bands in the direction of risk management;
- Initiate and participate in training programs for risk managers;
- Initiation and supervision of technical teams in risk management.

To reduce or eliminate the effects of country risk materializes managers should adopt appropriate measures for its management. Country Risk management is a difficult process because there are several alternatives for action and consider the strategy chosen, in addition to existing information, and perception, the attitude of managers or owners of foreign investment to risk (it is therefore a process that has a component subjective).

Managers of firms that made investments abroad have to optimize the ratio of potential gain can be achieved in foreign markets and the country risk. To do this using several methods of country risk management: risk avoidance, insurance against risk, negotiating a framework for action (environment variable), adaptation (the restructuring of the investment project), diversification of investment project on a geographical basis.

Country risk analysis is of high and postinvestitionale stage, to base a risk response alternatives. At this stage, foreign firms can use several strategies to reduce the impact of country risk on investment: diversification, short-term profit maximization, promotion of close relations with local entities strong retrofit.

Organizational measures aimed at increasing foreign company control over activities in the host country and thus reduce the country risk. These measures can be applied both in preinvestitionale phase and in the postinvestitionale**.**

6. Romania 2017 and country risk

Romania has a number of strengths (http://www.coface.com):

- large home market;
- significant agricultural potential: wheat, barley, colza etc.;
- limited energy dependence (23%) thanks to coal, oil, gas and uranium;
- large-scale renewable electricity production (37%);
- diversified and competitive industry thanks to cheap labour;
- leu stable against euro etc.

But, Romania has and many weaknesses:

- demographic decline: low birth-rate and emigration of educated youth;
- serious regional disparities in terms of education, vocational training, healthcare and transport, rural regions lag behind;
- low participation rate for Hungarian and Roma minorities, young people and women in the economy;
- large informal economy (28%);
- inefficient agricultural sector (11% of GDP);
- slow bureaucratic and legal processes, corruption etc.

Weak public revenues and tax evasion without returning to its high level of 2016, growth should remain strong in 2017. As previously, the main driver is domestic demand. Household consumption (70% of GDP) will be the leading element. Once again, households will benefit from employment increases, wages and pensions rise—both in the private and public sectors—and from taxes. Wages are being driven by the increasing scarcity of labour as a result of emigration and the ageing of the population, despite the financial incentives being used to encourage mobility among the unemployed and reduce long-term unemployment. Consumption will however slow sharply because of the declining impact of the tax cuts and the return of inflation, connected with the overloading of existing production capacities.

Investment (24% of GDP) will continue at a strong level against a background of low interest rates and the positive outlook for growth. It will be sustained in construction, telecommunications and computing. Investment aid (0.52% of GDP) will be available to the SME sector. Despite the poor level of take up because of the bureaucracy involved and administrative shortcomings at the local level, European funds will contribute in maintaining the moderate growth in public investment, but still not enough to make up for the

infrastructure inadequacies. The State will continue to guarantee half of loans taken out by first time buyers with the aim of encouraging lending and lowering the cost. However, there is one unknown that arises from the application of the Datio in solution law approved in April 2016 that allows the borrowers to discharge their commitment by transferring the ownership of their house to the creditor, and the inhibitive effect that this could have on the supply of credit. This comes on top of the cost for the banks (530 million euros according to the Central Bank, or 4.2% of outstanding credit) of converting the lei at the rate of exchange at the time of the signing of household loans denominated in Swiss francs (law of October 2016). The cost will rise considerably if it is extended to loans in euros (more than half of outstanding credit). The Constitutional Court, examining the law, is likely to amend the application. With substantial non-performing loans (10% in October 2016), but with a gradual reduction in these, and the laborious application of securities, prudence will remain the key for the banks, 90% subsidiaries of Austrian, Dutch, French and Greek groups.

Exports (39% of GDP) will increase at a reasonable rate, but below that of imports under the impetus of domestic demand, and the contribution from trade will remain negative. Sales of cars (DACIA and Ford) and tyres (a quarter of exports), together with wood, fertilizers, metals, medicines, machines and clothing will feel the benefits of any increase in European demand. Exports of cereals and oil crops will depend on the harvest 2017.

Conclusions

Foundations of classical theories of decision based on the assumption of certainty, are increasingly eroded by stronger real situations that do not meet the full and correct knowledge of all conditions and the effects of an event. Hence the modern theory no longer operate with certainty. Risk is inherent in any economic activity. The risks may be more or less known, more or less serious, easier or more difficult to avoid.

The only way to resist an external environment, the unknown, the occurrence of unexpected events can cause substantial losses is adapting to environmental conditions. This is not possible for Romania, without knowing the opportunities and threats that the environment provides, without knowing the risks involved in operations in which they engage and how to mitigate these risks and not to provide a certain degree of risk its economic and financial situation allows it to accept. We can not claim total certainty in their decision as

we can not claim excessive caution. We must bear in mind the fact that Romanian society development was made possible by taking risks.

Before any work is necessary to take risks and the implications they may have on the action operator. The decision shall be based on the estimated level of risk and possible effects. If the decision is made correctly, success is assured. If instead, the company failed to properly assess the risk and its implications, the losses will be high, leading to its removal from the market.

The risk itself is not a negative element. What is misunderstanding lead to losses to the adoption of inadequate risk management system. Creates risk and opportunities are creating value.

These are some arguments in support of the idea that risk assessment activity must be an ongoing concern of management when a company intends to address a foreign market.

The simpler, more concise and more useful tool for risk analysis (in fact the only one who enjoys a reputation outside the circles of experts), ranking of risk, and the least useful: no matter how precisely it should be done, purpose of its use in determining the development concerns of past and present position in the general level of risk associated with a state or group of states.

At the opposite extreme, the maximum of information, analysis and interpretation of the specific elements of country risk are concentrated in the country studies, the most complex and developed products in this area, and also the most expensive because of the difficulty of their production; all other instruments (scale of indicators, econometric models, scenario analysis, etc.), although can be used independently, not (for firms and rating agencies powerful enough to afford this institutional effort) than elements which contribute to the studies of the country.

For Romania, the management of country risk is not static. He must be an ongoing and evolving, able to anticipate and constructively use changes that inevitably occur in any business there. The success of an investment depends on an effective risk management.

Risk Management Process identifies the risks and consider their treatment. The second phase involves risk control, risk avoidance, or transfer it to other organizations or partners. The complexity increases as risk increases and the complexity of international firms. We can not claim total certainty when making a decision, as we can not claim an excessive caution. The development of human society was possible precisely because of taking risks. To reduce the negative effects of international risk materializes, may apply to

insurance company. These do not however cover all types of risk that may occur and the possible negative effect is greater materialize, the cost of insurance is higher, sometimes even exceeding the damage caused by risk.

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