NEW DIMENSIONS OF BENEFITS AND RISKS TO BUSINESSES IN THE EUROPEAN UNION MARKET

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Abstract: *The European Commission said that the economy of eurozone will decrease by 0.3% this year and will grow by 1.4% next year, with job cuts, shortage of investment and still tight lending conditions delaying the recovery. In the European Union as a whole, GDP expansion is projected at just 0.1% this year and 1.6% in 2014.The paper aims to identify the types of risks that a company faces when entering the European Union's market. Risk may be defined as an uncertain event that may have a negative effect on achieving objectives and risk management can be defined as the process that identifies analyses and accept or mitigate the uncertainty in business decision-making. Well designed and implemented, risk management programs are the source of competitive advantage for businesses in the European Union market and this way the operating costs can be reduced, quality and product reliability can be improved, staff productivity can increase. It is very important for any company to be aware of potential risks as this will help to assess, to prioritize and to protect against the risks that may arise. Some of the potential risk can destroy a business, while others can cause serious damage that can be costly and time consuming to repair. After the company have identified the risks, they must be prioritized in accordance with the companies assessment of their probability.The European Union expansion is ongoing and it is a major market place .Doing business on international level has always been about managing the unique risks which global markets pose. For many companies that intend to do business in Europe today, the risks are so varied and complicated that a risk management strategy is necessary and must be carefully tuned and revisited on a regular basis. There are many advantages when starting a business in the European Union. When participants and investors enter a new market should remain vigilant about risks.*

Key words*: risk, European Union, business, market, risk management.*

***JEL classification**: G3*

Introduction

In this moment of time, to maintain competitive advantage, companies are on a pursuit to expand the market share. Therefore, to achieve this purpose most companies have used globalization as a strategy.

Globalization refers to the elimination of barriers to trade, communication, and cultural exchange.

There are many reasons why a company ventures into foreign markets, such as:

- to spread business risk across a wider market base;
- to achieve/maintain core competences;

- to lower costs and enhance companies' competitiveness;

to gain access to new customers- expanding into foreign markets offers potential for increased revenue, profit and long-term relationships and growth, and becomes an especially attractive option when a company's home market is mature.

To enter the European Union market companies must consider the following objectives:

- understanding the hindrances a firm might face while entering the EU market;
- studying the response towards the advent of the company in the new market;
- focusing on the customer taste and needs of the market;
- understanding the market strategies adopted by the top competitors;
- analyzing the EU market potential and market players.

In a study by the Economist Corporate Network, The Economist Intelligence Unit in cooperation with the company Marsh Romania, given the low level of knowledge of risk were developed four reports that highlight the challenges of risk management faced by the European companies. Each report covers a different field of risk business. All areas are particularly challenging in terms of aligning national legislation with the European Union legislation and the potential costs of failure or risk mismanagement have important effects.

These four risk areas for European companies are:

Product liability and consumer protection

European Union legislation on consumer protection and health includes 14 directives dealing with issues ranging from product liability to advertising. None of the new member states will benefit from transitional periods for implementing the legislation. According to those directives, producers are responsible for damages resulting from any aspect of the product. If it fails to be identified, each supplier of the product is responsible.

An EU directive on product safety came into force on 15 January 2004 and applies in countries that acceded on 1 May 2004 and acceding countries.

European Union legislation on food includes dedicated special regulations and control, how the labeling, additives and method of packing, practices local regulations differ greatly from the new member states.

Health, safety and human resources

The European acquis describe a very complex legal framework, consisting of 40 directives for all industries and services.

The judicial and administrative bodies shall establish national monitoring and recording complaints from staff. Employers' liability will rise to the EU member states. In a survey conducted in 2012 by the European Foundation for the Improvement of Living and Working Conditions found that there are major differences in this area between the EU states and accession countries. 40% of employees felt accession countries that are exposed to health risks and personal safety at work, compared with only 17% of EU employees who had the same opinion.

Environment responsibility

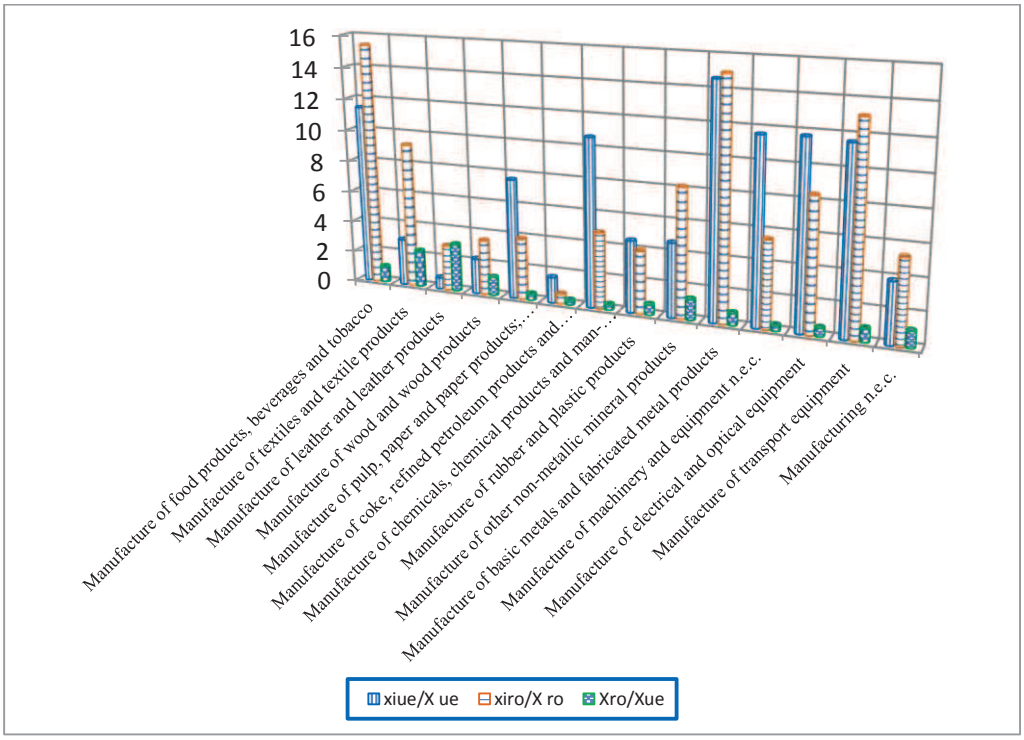
Adopting environmental acquis will require an investment estimated at 120 billion euros for the last two waves of accession countries.

In many cases, the acquis will require more stringent emission standards for hazardous waste management practices associated with handling and final disposal of all waste materials. Heavy industries such as chemical, energy and metals, will have to meet licensing requirements for pollution control as specified in the Directive on the prevention and control of pollution. Compliance with this directive will result in increased costs.

Environmental legislation is a goal of future changes. Regulatory changes will include "*Environmental Liability Directive*", which was adopted in the spring of 2004 and which, once implemented, could lead to an increase in the liability for contaminating activities and natural resource damages.

He also proposed a "*Directive on chemicals*", whose purpose will be to anticipate registration procedures and security assessments for companies that annually sells more than a ton of chemicals.

Romanian manufacturing production structure towards the EU industry is disadvantageous from the point of view of environmental pollution. The following figure shows a comparison of the position of various sectors in total manufacturing in Romania, the share of EU27 and Romania to the EU, the components of this industry, highlighting the fact that large polluting industries have a large share in Romania.



Comparison between Romania and the EU27 the value added and the share of manufacturing components in total and Romania share in EU27 in manufacturing industries in 2007

Source: EUROSTAT, Annual detailed enterprise statistics on manufacturing (NACE Rev.1.1 D), 06.03.2012

Managers' liability

After several scandals during the global financial crisis in 2008 and 2010 that affected certain corporations, liability of directors for the company's shares began to attract the European Union' attention.

The action plan of European Union financial departments are seeking to create an EU-wide integrated capital market and to introduce International Financial Reporting Standards. The EU also plans to develop a guide of corporate governance. All this could lead to closer monitoring of shareholders and the directors' accomplishment of legislative tasks for the companies that are registered in Europe.

The failure to comply with EU legislation puts CEOs in vulnerable situations from litigation and penalties. Improved knowledge by consumers and employees on their rights will further strengthen this trend.

Risk management in Romanian companies

Business was, is and will be exposed at risk. Risks are related to the complex nature of business. They cannot be completely eliminated but can be known, assumed and make them reduce adverse consequences. Lately, there are stands from which comes a warning in Romania: risk management should be on every manager's agenda.

Risk management is the natural consequence and the scope for other two essential steps: their *identification* and *hierarchy*, namely prioritizing their approach in the company. Hierarchy it is according both to frequency and impact severity on business. Follows the potential impact quantify of these risks on the business.

When a company has a clear picture of the risks to which they expose and they know the hierarchy, they decide which risks they want to manage. Risk management refers precisely the measures that a company has taken on the identified and hierarchical risks. Risk reduction measures should be the first step. It's the risks that a company decides to keep them and take them because they have the financial capacity that allows withstanding certain risks.

The next step would be the risks transfer that cannot be controlled by a third party who is actually called an insurance company. It is about the risks that the company decides that it cannot work those who cannot be assumed, because it would be a major impact on the business. The company transfers those risks to an insurance company against a takeover premium are the insurer risk price. The insurance benefit is that a company protects its business, protect their balance sheet and the impact cannot destabilize the company.

In Central and Eastern Europe and in Romania four risk categories occurs frequently:

- operational risks;
- strategic risks;
- financial risks;
- hazard risks.

Strategic risks may affect the company's activity and may lead to failure to achieve business objectives, *operational risks* are related to dependence on a company's processes, people and products, *hazard risks* are risks associated with natural disasters, accidental destruction of property or injury to employee termination

business, while *financial risks* may affect the company's results through exchange rate fluctuations and interest rate.
In Romania, 10% of companies that suffered a significant financial loss in recent years do not have yet a plan for crisis management.
Almost half of the companies in Central and Eastern Europe have not a clear strategy for incorporating risk management into their work. Most managers recognize that they have not implemented robust procedures in strategic risk management.
Companies from Romania and Central and Eastern Europe are not yet concerned with regulations coming into effect or have come into force upon accession to the European Union and its implications for company activities. To avoid possible sanctions, companies in the new member states should be familiar with an impressive volume of regulations and policies and ensure that their activities are conducted in accordance with them.
Economic and financial risk, the consequences of worrying economic environment, places Romania on the last place from 37 European countries1.
For Romania is important that political parties, government, democratic institutions have assumed leadership of the Romanian economy and society to establish and promote safe and effective economic structure, to develop policies in line with national interests.

Conclusions

In time, increased competition may cause significant changes in the structure of markets in Europe. For the first time insurance buyers will have direct access to insurance products available in all EU member states. Externally, insurance providers will be able to attack the market share of local operations, without the need of efforts for the establishment and registration of new businesses.
Given this, international insurance companies will try to gain reputation locally, but could be cautious about the short and medium term strategies. In addition, do not have the local infrastructure to process large numbers of policyholders. In practice, it is assumed that foreign insurers are initially attracted by large corporations in the region, international presence, specific expertise and new insurance products will be the most attractive.
If companies want to make shelter from the risk of non-compliance and reduce the impact of future legislative changes, it is essential to understand and take account of the four risk areas identified in the study. But an effective risk management is not only to avoid disaster, but has the potential to create a competitive advantage. Companies that have an effective risk management are more attractive candidates for investments and acquisitions, and companies with a clear vision of the benefits arising from good risk management are more likely to generate sustainable development. With EU accession, a more efficient risk management may prove to be one of the most important benefits.
Activity of foreign direct investment has a positive impact on overall trade balance of Romania, concurring with 72.4% of the total Romanian export and import by 62.5%. It is known that the overall trade balance, recorded in chronically considerable deficits. Exports and imports foreign direct investment enterprises were significant

1 www.marsh.com

share of the total ones. FDI enterprises trade balance registered deficits, but the situation is highly differentiated between branches.
Branches with trade surplus were: transportation, metallurgy, machinery and equipment, wood products, including furniture, textiles, clothing, leather goods, computers and other electronics, and the deficient - oil processing, chemicals , rubber and plastics and, contrary to expectations, food, beverages and tobacco, as shown in the annex.

Annex: Exports and imports of foreign direct investment enterprises 2010

-milion euros-

	Exports (FOB)		**Imports (CIF)**	
	FDI enterprises	**% of total branch**	**FDI enterprises**	**% of total branch**
TOTAL	*25.950,0*	*72,4*	*28.181,0*	*62,5*
***Manufacturing**:*	*21.934,0*	*61,2*	*18.849,0*	*41,8*
– Manufacture of food, beverages and tobacco products	*314,0*	*0,9*	*978,0*	*2,2*
– Manufacture of non-metallic mineral products	*139,0*	*0,4*	*265,0*	*0,6*
– Manufacture of products of wood and furniture;	*1.223,0*	*3,4*	*396,0*	*0,9*
– Manufacture of computers, electronic, optical products and electrical equipment	*3.652*	*10,2*	*3.426*	*7,6*
– Manufacture of machinery and equipment n.e.c.	*1.020,0*	*2,9*	*546,0*	*1,2*
– Manufacture of basic metals	*2.725,0*	*7,6*	*1.572,0*	*3,5*
– Manufacture of motor vehicles, and transport equipment	*6.713,0*	*18,7*	*4.820,0*	*10,7*
– Manufacture of coke and refined petroleum, chemical products, rubber and plastic products	*2.947,0*	*8,2*	*4.414,0*	*9,8*
– Manufacture of textiles, apparel and leather	*2.983,0*	*8,3*	*2.095,0*	*4,6*
–Other manufacturing activities n.e.c.	*218,0*	*0,6*	*337,0*	*0,7*

Source: BNR, INS –"Romanian foreign direct investment in 2010 year ", 7 november 2011

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