

## THE BUSINESS RISK AND ENVIRONMENT SPECIFIC OF THE EUROPEAN UNION

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### **Abstract**

*The international economy is marked by a multitude of base mutations, which re-shape the intricacy of interdependencies based on which it functions. The development of the informational society and the continuous adaptation of economic structure to the rapid changes that happen globally virtually place all nations in a continuous restructuring and transition process. Two main dynamic and interdependent forces lead this process, that is: the strengthening of the world economy globalisation process and the appearance and development of regional economic arrangements.*

*The treaty regarding the constitution of the European Union comprises a series of regulations which refer directly to ensure of the Community industry's competitively - related conditions. This is achieved through a complex system of open and competitive markets.*

**Keywords:** risks, enterprises, European Union, Community Space, elements, legislation, objectives, aspects, rules.

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### **1. Introduction**

At the level of a European company's activities, there are mainly risks which directly affect the company's internal activity, as well as many financial risks. There is a tight interdependency between these two risk categories; they need to be very clearly delimited from the point of view of issuing an aggregation model based on the independence of the occurrence of certain risks, on the one hand, and the major implications of certain events, on the other hand. Nevertheless, in a company's operation, it cannot be said that the phenomena which can occur are completely independent from one another.

The risk involved in the specific activity of a European company is based on general elements. Thus, we will find here possible issues regarding the achievement of all the objectives set by a company, through specific activities. Potential issues can be related to:

- Attracting resources at company level;
- Efficient distribution of these resources;
- Establishing the company's offer;
- Estimating the demand;
- Choosing and using latest generation technologies;
- The company's relations with its direct competitors;
- Achieving the estimated turnover;
- The quality of the company's products;
- Major price fluctuations, which may have negative consequences on the profit;
- Other situations and events which may directly affect the obtaining, maintaining or maximising of the profit.

Generally, when this type of risk is thoroughly analysed, only the effects are taken into consideration, and not the multitude of causes which generate the risk.

### **2. Primary risk categories which affect enterprises within the Community Space**

The most important categories of risks that directly affect the Community economic agents' activity are:

- The market risk, which refers to the impossibility of selling the entire production volumes or not being able to comply with the planned sale terms;

- The operational risk or the exploitation risk appears when the results of the exploitation activity are not related to its main components;
- The technological risk only refers to those risks which regard the quality and competitiveness of the company's products, as well as their costs, through the use of appropriate technologies;
- The financial risk is that risk which, in the absence of an appropriate financial support, leads to a European company's impossibility to achieve its set objectives. So, a solid financial position offers the entrepreneur a wide range of investment alternatives, while a precarious financial position is the premises for the negative effects of market shocks.

This type of risk requires the thorough analysis of the following related risks:

- The market risk from an investment portfolio perspective, this aspect being very important for the European company;
- The investment portfolio does not have the expected trend or its structure may, in time, lead to losses for the company;
- The inflation risk directly affects many components of a Community company's activity, with a direct impact on its financial results;
- The interest rate risk may dramatically affect the specific investment volumes; it is recommended that the factors which may negatively influence this rate are treated separately;
- The credit risk is specific to large financial-banking institutions; also, the possible financial problems of a Community economic agent while operating its activities need to be strictly delimited;
- The liquidity risk is a result of a European company's incapacity to reduce in due time and at the market price certain financial assets or other types of investments from its portfolio.

Thus, „(...) some important aspects can be delimited:

- It is very difficult, if not almost impossible, to separate into distinct categories the business-threatening risks;
- It is not possible to describe the threats which stress upon a company unless there is knowledge and understanding of the business' internal processes;
- The possible effects which a risk's manifestation can generate are very diverse. Very much imagination is needed in order to forecast them and a huge ability is needed in order to measure them, more so that the same effect can be the result of more concurrent causes which take place at the same time and sometimes in interdependency;
- The complexity of the types of threats and their potential effects, almost impossible to classify and assess, can generate a true chaos in an entrepreneur's initiative to manage the business risk. Thus, there is a need for information order methods, for logical and formula algorithms in order to shape the total risk for a company. Because the idea of <<model>> is frequently associated with a difficult language for the users, there is a need for permanent concern regarding a clear and accessible expression, a link between the theoretical specialist and the entrepreneur;
- The business risk is a compound risk, which, in order to be treated adequately, needs a holistic approach, a complex vision which ensures the mix of all the components, seen both from a theoretical and a practical point of view. The lack of correspondence between the theoretical model and the practical side inevitably leads to initiatives that will prove not to be operational, just like the attempt to approach a business risk without a <<pattern>> will cause panic to the entrepreneur who is aware of the complexity of the problems. An intuitive understanding of the risk, based on experience and common approaches, may create a false feeling of comfort, but good practical results need more than intuitive approaches.” (Druică, 2006)

Together with the fundamental directions of the risk phenomenon approach (the financial side-based direction – stock holdings, bonds, credits, debts, term deposits etc., the physical side-based direction – lands, buildings, equipment, the personnel side-based direction – personnel knowledge, skills and education, the intangible aspects-based direction – the company's reputation, brand, information), there must also come the temporal side (the time factor).

From the point of view of the four major directions, the following groups of risks can be distinguished:

„1. Business owners or stockholders risks – risks from external company causes, risks derived from capital ownership, accidental risks, opportunity risks.

Included here are the risks associated with the buying, keeping or giving up of any type of capital owned by the company: portfolio ownership risk, portfolio variation risk, investment projects risk, regardless of the used capital type, inflation risk, interest rate risk, credit risk etc.

2. Process risks – accidental risks, risks derived from faults, omissions and delays, fraud risks, productivity loss risks.

This risk category takes into consideration all the threats which can occur as a consequence of using the capital for the purpose of achieving the company set objectives. There is an operational side to this, with no connection

to the previously-described risk category, so, up to this point, there is an acceptable independence of the risks from these two categories.

3. Behaviour risks – productivity loss risks, opportunity risks, and inadequate environment risks.

All the risks associated with attracting, keeping or giving up human capital is taken into consideration, not including those actions which may threaten processes and which belong to the second category.” (Druică, 2006)

In other words, it is necessary to take into consideration the following major objectives: adapting the industry to the main structural changes that may occur; creating an appropriate environment for the establishment and development of companies in the European area; developing a suitable environment for inter-company cooperation.

### 3. The defining elements of the Community legislation

Also, Community legislation is meant to stimulate the business environment and also to encourage the establishment and development of companies, stressing out the important role that they have in the unemployment rate diminishing process. It must also be said that the European Commission adopted a strategy meant to continuously encourage companies, both from the perspective of the globalisation process and from the economic development perspective.

The European Charter is the main instrument that settles the rules for Community companies' activities. It is meant to ensure a stable and attractive business environment both for entrepreneurs and for the establishment of such companies. In order to achieve this objective, the actions regulated in the Charter are structured within the following fields of interest:

- The educational process and the entrepreneurial training phenomenon;
- The rapid establishment of new companies at costs as low as possible;
- The improvement of the field-related regulations adoption process;
- The process of ensuring necessary qualifications;
- The improvement of online access to various services categories;
- The facilitation of access on the Single European Market;
- The legislative stimulation in the field of fiscally, as well as in the financial field;
- The company-specific technology improvement process;
- The encouragement of e-business models which had had a real market success, the establishment and development of companies characterised by obtaining exceptional performances;
- The encouragement and development of a more efficient company representation, both on a national and on a European Union level.

Next, I will make a short presentation of each field of activity:

- The educational process and the entrepreneurial training phenomenon imply the encouragement of the entrepreneurial spirit in young people, at the level of secondary education, as well as at the level of university education. In this respect, certain programmes take place in order to initiate and develop appropriate training projects.
- The more rapid establishment of new companies at costs as low as possible can be achieved especially by a company's online registration.
- The improvement of the field-related regulations adoption process. This may include the main taken measures to reduce the negative impact of a company's bankruptcy. Also, this may also include all the measures that refer to this field of interests. The goal is that companies be excluded from an entire series of administrative requirements (for example, notices and other categories of necessary documentation).
- The process of ensuring necessary qualifications implies making sure that the work force provided by training institutions is congruent with the companies' personnel needs.
- The improvement of online access to certain services categories. This means that companies can use a set of online services provided by the public administration.
- The facilitation of access on the Single European Market. This is a fundamental requirement in order for the companies to fully take advantage of the opportunities offered by this market. Also, it is important to correctly apply all the regulations regarding competition elements. This type of market considers ensuring equal chances for all enterprises with regard to free access and competition with other companies.
- The legislative stimulation in the field of fiscally, as well as in the financial field, has as its main objective to ensure the companies' access to the European Union's financed projects. Thus, the national tax and duty regulation authorities must focus on: encouraging companies' success; encouraging and developing the business field; creating new work places.
- The company-specific technology improvement process involves: the process of promoting new technologies; the process of implementing the European Inventions Patent; the process of facilitating the companies' access to national research programmes; the process of stimulating cooperation between different company categories; the process of cooperation between companies, on the one hand, and the main education and research institutions, on the other hand.

- The encouragement of e-business models which had had a real market success, as well as the establishment and development of companies characterised by obtaining exceptional performances. So, companies will be encouraged to develop both through the application of the best solutions in the field and through the use of competitive business models. It must also be remembered that support services will be created for these companies. „In this context, the perfecting of business management is not only an option, but a must.” (Purcărea, 1994)
- The encouragement and development of a more efficient company representation, both on a national and on a European Union level. In this respect, the main measures of coordination between national politics and Community politics will be implemented. Each year, there will be a report on the implementing stage of the European Charter politics.

During the negotiation process with the European Union, three major approaches of Romanian companies were outlined, that is: the way in which a company is defined; the issuing and implementation of the main entrepreneurial activity politics; the improvement of the Romanian business environment.

#### 4. The main trends dictated by the European Commission

We must also mention the fact that the European Commission adopted the „Multiannual programme for enterprises and entrepreneurship”; this Programme is an extremely important tool of assessment and appraisal of the European Charter objectives. It is based on some clearly defined objectives, such as:

- The substantial increase of the economic growth rate;
- The increase of the organisational competitiveness degree;
- The encouragement and promotion of entrepreneurs;
- The simplification and improvement process of the legislative frame specific to the field of activity;
- The stimulation, establishment and development of new enterprises;
- The improvement of the financial legislation for the activity of enterprises;
- The improvement of access to support services;
- The improvement of access to Community programmes;
- The access in due time to Community networks;
- The improvement of coordination activities at the level of the European Union.

In the field of fiscally, the European Commission's Recommendation emphasizes the adoption of a set of efficient measures that eliminate the negative effect of the income tax application to sole-proprietorship companies. When it comes to general partnerships (G.P.), problems appear when it comes to the re-invested profit. Thus, the recommended measures focus on two important aspects:

- The possibility that these companies choose the application of the income tax;
- The limitation of the re-invested income tax between certain limits, so that this can be similar to the income tax applicable to the other types of enterprises.

The European Commission's decision is very specific about the enterprises' transfer facilitation process, in order to be able to ensure their survival, as well as the maintenance of the work places they provide. The European Union member states stand for certain legal, administrative and fiscal measures that are able:

- To back up the preparation of enterprises transfers;
- To adopt a fiscal frame favourable for transfers;
- To ensure the application of procedures meant to make transfer processes more efficient;
- To ensure the continuation of the company specific activities in the event of one of the partners' or associates' death, and even in the event of the sole owner's death;
- To make sure that the inheritance ensure process taxes are not extortionate, because this would obviously obstruct the company's normal progress of activities;
- To take into consideration, by adopting an important set of fiscal measures, the encouragement of the transfer process from the owner to the employees, only if the respective owner has no heirs.

Another important decision of the European Commission refers to the approval of an extremely complex mechanism to support the establishment of transnational joint ventures in the Community area. For this purpose, the „Joint European Venture” (J.E.V.) Programme is rolled out. This Programme sustains enterprises to establish transnational relations, which happens by taking over an important part of the costs of establishing joint stock enterprises.

Interpreted from a broad perspective, from a decisional point of view, a joint stock enterprise is an economic entity that can take the form of a consortium, partnership or joint stock organisation, that:

- Has the objective of establishing new activities specific to the economic field;
- Is aimed at creating new work places in the European Union area;
- Has an active role in association processes, at the same time taking over certain derived responsibilities;
- Can be established by at least two enterprises from different states that are European Union members.

## 5. Conclusions

The European Commission's Recommendation in the field of enterprises refers directly to the degree of implementation of a complex administrative simplification politics, which aims mainly at:

1. The implementation process of some programmes aimed at administrative diminishing. These programmes involve all the public entities with competencies in this field.

2. The process of ensuring these programmes' compatibility with the existing field legislation, as well as with the legislation that is to be approved. So, „it is required to eliminate all guileful regulations, as well as regulations that are no longer compatible with the present socio-economic realities.” (Niță, et al, 1999)

3. The process of thorough analysis of the impact generated by the issuing of new field regulations.

4. The process of ensuring company-specific competitive services, which means: improvement of cooperation between public institutions, on the one hand, and all the enterprises, on the other hand; improvement of standardisation procedures; reduction of the great number of required administrative forms; establishment of Single Offices that offer assistance to Community enterprises; encouragement of silent agreements that replace an entire series of formal decisions; increasing the number of information procedures regarding the companies' activities through newspapers, magazines, guides, brochures, advertising etc.; publication in specialty treatises and books of the main field legislative regulations; simplification of administrative procedures applied for enterprises.

5. The process of establishing an advisory agency. For its establishment, there need to be present the companies' delegates, on the one hand, and the state authorities representatives, on the other hand. At the same time, the simplification methods of the main administrative procedures will be emphasized.

Another important Recommendation of the European Union is aimed at ensuring the improvement and simplification of the business environment, with the purpose of companies' establishment. The European Union member states are encouraged to achieve this goal by encouragement and support activities of companies from their first year of establishment. The adoption of this Recommendation by the European Union is meant to stimulate the companies' innovation potential and also to encourage them. This Recommendation focuses on some important aspects, such as: the improvement possibilities of the relation of cooperation between a state's public administration and the business environment, by reducing the time span for the companies to get a response to their solicitations; the creation of a legislative frame favourable to the establishment of new enterprises.

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