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RISKS IN FOREIGN ECONOMIC ACTIVITY OF AN ENTERPRISE

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Abstract

The article demonstrates the importance of risk management at an enterprise aimed at efficient management of its foreign economic activity and foreign economic operations in particular. The model of risks management is considered as a subsystem within the functional structure of an enterprise. We are going to consider the main risks which an enterprise conducting foreign economic activity faces, as well as with possible ways of avoidance of the losses caused by them and The methods of risk management were analyzed, and optimization methods application, decision making and control for its implementation and Risk treatment of the activity of the foreign economy.

Keywords: risk management, foreign economic activity, foreign economic operations, enterprise.

الخلاصة

يكمن البحث في أهمية إدارة المخاطر في مؤسسة تهدف إلى الإدارة الفعالة لنشاطها الاقتصادي الأجنبي والعمليات الاقتصادية الأجنبية على وجه الخصوص. يعتبر نموذج إدارة المخاطر بمثابة نظام فرعي ضمن الهيكل الوظيفي للمؤسسة. سننظر في المخاطر الرئيسية التي تواجهها المؤسسة التي تمارس نشاطًا اقتصاديًا أجنبيًا ، بالإضافة إلى الطرق الممكنة لتجنب الخسائر التي تسببت فيها ، وتم تحليل طرق إدارة المخاطر ، وتطبيق أساليب التحسين ، واتخاذ القرارات والتحكم من أجل تنفيذه ومعالجة مخاطر نشاط الاقتصاد الأجنبي .

الكلمات المفتاحية: إدارة المخاطر، النشاط الاقتصادي الأجنبي ، العمليات الاقتصادية الأجنبية ، مؤسسة.

Introduction:

Foreign economic activity of the enterprise, like any other, is associated with the need to make risky management decisions. Risk in foreign trade can be considered adverse events or a combination of events related to foreign trade, with adverse consequences.

The risks of foreign trade include: currency, customs, political, international marketing, international transportation, international contract, international competitive environment, information, innovation, customs, commercial, country risk (socio-political, macroeconomic and microeconomic), the risk associated with a foreign counterparty and so on. The sources of foreign trade risks include: social factors; environmental conditions; economic, financial and political factors; business management model; insufficient information; ethnic and regional problems; the difference in international legislation; force majeure; uncertainty in the activities of foreign trade entities and the like. Elements of risk management the foreign economic activity are: the subjects of management – employees, departments, and divisions of the enterprise; facilities management – industrial operations, technology, information, resources, processes in macro and external economic environment; management tools – methods and principles of activity of the enterprises in a transnational environment; monitoring of the level of risk.

Risk management in logistics of foreign trade stakeholders is the set of logistics links. All participants in the logistics chain are interested in making a profit and preventing the causes of logistics risk. The risk management system in supply chains must be carefully thought out. It is expedient to calculate the integrated logistics risk, which includes transport and environmental risks; risks of information, material and financial flows management. The measures of risk management in foreign economic activity include the following: organizational, insurance of foreign trade risks, self-insurance, hedging, risk transfer, creation of a special reserve Fund. These measures will help to more effectively manage foreign economic risks in order to prevent and reduce the consequences of risk events and to form an overall risk management strategy of the enterprise.

The analysis of recent research and publications. A large number of works are dedicated to the risks enterprises face in their activity. However, for the modern stage of the country's economy development when the enterprises are beginning to explore new foreign markets channels, the issues of the account of risks of foreign economic activity remain topical and require attention.

Statement of the problem.

Over the past decades, more regulations for insurance companies have been created. The Solvency II Directive has been worked on for the past several years and will come into effect in 2020. The question now rises whether regulations concerning risk management are enough to prevent problems from occurring as we saw in the last crisis. There is still no proof that the implementation of Enterprise Risk Management leads to better performance.

Therefore more research is required to examine the relationship between Enterprise Risk Management implementation and performance during a financial crisis.

The aim of the research:

This study aims to define risks in the foreign economic activity of an enterprise and determine ways of their prevention or avoidance of their influence on an enterprise.

Materials and findings of the research: The Risks in foreign economic activity can be considered as possible threatening events connected with foreign economic activity of an enterprise which can lead to negative effects such as loss of profit or making further losses. We are going to consider the main risks which an enterprise conducting foreign economic activity faces, as well as with possible ways of avoidance of the losses caused by them and the methods of risk management were analyzed, and optimization methods application, decision making and control for its implementation and Risk treatment of the activity of the foreign economy.

The underlying premise of enterprise risk management: is that every entity exists to provide value for its stakeholders. All entities face uncertainty and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. Enterprise risk management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value. Value is maximized when management sets strategy and objectives to strike an optimal balance between growth and return goals and related risks, and efficiently and effectively deploys resources in pursuit of the entity's objectives. Enterprise risk management encompasses:

• Aligning risk appetite and strategy – Management considers the entity's risk appetite in evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks.

• Enhancing risk response decisions – Enterprise risk management provides the rigor to identify and select among alternative risk responses – risk avoidance, reduction, sharing, and acceptance.

• Reducing operational surprises and losses – Entities gain enhanced capability to identify potential events and establish responses, reducing surprises and associated costs or losses.

• Identifying and managing multiple and cross-enterprise risks – Every enterprise faces a myriad of risks affecting different parts of the organization, and enterprise risk Management facilitates effective response to the interrelated impacts, and integrated responses to multiple risks.

• Seizing opportunities – By considering a full range of potential events, management is positioned to identify and proactively realize opportunities.

• Improving deployment of capital – Obtaining robust risk information allows management to effectively assess overall capital needs and enhance capital allocation.

These capabilities inherent in enterprise risk management help management achieve the entity's performance and profitability targets and prevent loss of resources. Enterprise risk management helps ensure effective reporting and compliance with laws and regulations, and helps avoid damage to the entity's reputation and associated consequences. In sum, enterprise risk management helps an entity get to where it wants to go and avoid pitfalls and surprises along the way.

Firstly - The methods of risk management Foreign economic activity of the enterprise

One of the major risks which requires being taken into account is a country risk It consists of political and macroeconomic risks which result from changes in governmental policy such as nationalization, expropriation, military activity, currency restrictions, as well as level of purchasing potential of a country where a customer is located. Therefore, when conducting foreign economic activity and concluding the contracts it is necessary to obtain information from the publications issued by consulting firms concerning countries' risks and corresponding indices: political, current economic situation, opportunity to make a profit etc. Data indices should be taken into consideration during the estimation of economic expediency of conducting a foreign economic transaction. Risk estimation can also be performed through the procedures of calculation and analysis or procedures of expert evaluation.

And in another kind of risk , currency risks are identified with probability of losses or damage. For instance, experts of the international Bank identify currency risks as an existing or potential risk for revenues and capital arising from unfavorable fluctuations in foreign exchange rates and prices for bank metals . Nevertheless, currency risk is the best example of dualism, meaning the possibility of getting both negative and positive effects, in the form of positive and negative exchange differences, which requires a dialectical analysis of the etymological nature of the "currency risk" category (Table 1).

Table (1). Dialectical analysis of the etymological essence of the "currency risk" category Currency risk. Glossary of NBU terminology. Homepage,

The laws of dialectics	Explanation	Economic content
I law Transformation of Quantitative Into Qualitative Changes	qualitative changes in the objective world, are carried out only on the basis of quantitative changes	only a big open foreign exchange position and a significant amplitude of currency fluctuations lead to the emergence of currency risks
II law Unity and Struggle of Opposites	Identity and difference are opposites, which interact, determine each other; is a source and driving force of development	dichotomy of the currency risk effects: the likelihood of receiving both losses (loss of income) and profits (benefits)
III law Negation of the negation	in "new" there is "old", but in a transformed form	the latest risk management tools are based on 3 main approaches: avoidance, minimization of losses,

		maximization of benefits

https://bank.gov.ua/control/uk/publish/article?art_id=124734 last accessed 2018/03/20
The economic nature of currency risk is formed by three interrelated parameters: the volatility of the exchange rate, foreign exchange position, which is defined as the difference in revenues (incoming cash flow) and payments of the entity (outflow) in foreign currency and foreign exchange exposure (the sensitivity of the subject to obtaining costs or income).

If we will analyze only one of these three parameters, we can receive distorted management decisions, since currency risk is possible only if there is an open foreign exchange position, while its closed form mitigates the sensitivity to any exchange rate changes. In this case, the unpredictable volatility of the exchange rate can be identified only as an additional catalyst for currency risk while the real reason is an open foreign exchange position or cash flows in a foreign currency. That is why, the currency position is the main object of currency risk management. According to A. Volitska, "specialists of the banking business conduct currency risk management through the currency position management" . Overall, currency risk, as a scientific category, is characterized by a complex dichotomous nature, combining negative and positive results. In this case, currency risk can be identified as a situational set of probability events with subjective-objective nature triggered off open foreign exchange position and unpredictable changes in the exchange rate as a result of information asymmetries, the effect of which is to obtain both negative and positive exchange rate differences.

Another kind of risk in foreign economic activity is the realization risk which takes place in the process of selling the goods produced and bought by a company which is expressed in the possibility of profit reduction and lost profit because volume of sales decrease due to falling demand, displacement by competitive goods, introduction of limits on goods, loss of goods quality and increase in turnover costs in comparison with the initially planned costs. Taking this kind of risk into account and its management are conducted in the process of analysis of marketing situation and marketing risks.
In carrying out foreign economic activity, the company faces customs clearance procedures, in this regard there are risks of the following nature: late certification of goods, incorrect calculation of customs duties, incorrect completion of customs declarations, lack of information

and non-compliance with customs legislation. In this case, the most significant factor in these risks is time, as the delay in the receipt of funds on the customs account entails the imposition of penalties for delay; long-term registration, obtaining permits for customs procedures or conclusions on the code of the commodity nomenclature of foreign economic activity entails the imposition of fines for a simple vehicle or container. To manage this group of risks it is necessary to develop and follow the procedure of customs procedures, thorough completion of documents for each foreign trade transaction, forming a standard process .

Thus, for an industrial enterprise that directly carries out foreign economic operations and / or has foreign subsidiaries, which accordingly continue the chain of foreign economic activity, delivering goods to the final consumer, the procedures for risk analysis and control are systematized in table (2) .

Procedures for risk analysis and control during implementation foreign economic activity

	Ways to control and reduce risk	Policy / Procedures
Risk of default	Awareness of the supplier and contract performance guarantees	Operating methods, consideration of transactions by the company's credit committee
Quality risk	Knowledge of the manufacturer's market	Operating methods
Price risk	Hedges (swaps and futures) and natural hedges through a basket of buyers and sellers	Trade policy
Shipping risk	Vessel chartering - "approved" vessels and a generally accepted charter agreement	Vetting control procedure
Currency risk	Currency hedging	Analysis and forecasting of exchange rates
Payment risk	Letters of credit, insurance, approved credit line	The process of approving the buyer, consideration by the credit committee

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Another significant risk is the risk of choice and due diligence. In order to decrease this risk it is necessary to: firstly, check a partner before entering a contract, secondly, try to foresee the actions that would minimize the given risk in the process of drawing up a contract. Due diligence methods are obtaining information from the Chamber of Commerce, a foreign embassy, application of a method of proper examinations which is carried out through the acquisition of a form containing questions about the counteragent, conducted business, financial condition, goods turnover and capital source. It is possible to minimize risks by means of additional clauses in a foreign economic contract at the time of contract conclusion connected with settlements of a dispute by arbitration; introduction of a system of punitive penalties for every taken liability and a system of forfeit; transfer of title upon payment in full; use of modern form of payment, factoring etc.

Based on the considered types of risks of an industrial enterprise engaged in foreign economic activity, it is necessary to correctly identify risks, in this regard, you can present a map of risks in comparison with the stages of operational and commercial process (Form 1) .

Thus, the implementation of foreign economic activity of the enterprise and access to foreign markets are accompanied by a number of risks, the assessment of which and consideration in the implementation of foreign economic transactions should be carried out through the organization of analysis and management of these risks. The approach to the implementation of such a system may be the introduction of the company ranking and risk assessment for use in determining the effectiveness of operations and expected results of the enterprise, as well as the possible change in the objectives of foreign economic activity of the industrial enterprise.

Pre-financing | Pre-export financing | Subscription

Act of acceptance by the freight forwarder | Railway consignment | Act of acceptance by the freight forwarder | Consignment

Goods elaborated	Factory storage	Transportation by rail	In the port	Transportation by ship
The risk is not the implementation of the production program Country risk Currency regulation Political risk \ Price risk Decrease risks: Bail Letter of credit with payment in installments Guarantee repayment	Risk of shipment Country risk Price risk Risk of theft Decrease risks: Notification of product readiness Warehouse receipt Act of acceptance Insurance Guarantees	Risk at supply Transport risk Country risk Risk Stealing Decrease risks: Railway consignment note Insurance Guarantee implementation obligations	Risk of shipment Ризик країни Risk of theft Risk of transshipment Decrease risks: Act of acceptance Forwarder Receipt of goods Інспектор Tripartite agreement Insurance	Risk of default Obligations Risk of non-payment Risk during transportation Price risk Risk in negotiations Decrease risks: Documentary letter of credit Banking Guarantee Subscription Factoring

Fig (1) Map of risks of foreign economic activity of the enterprise

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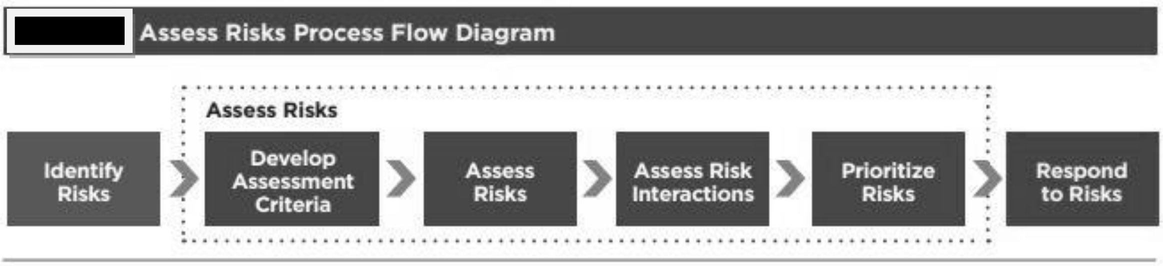
Secondly - risk assessment Foreign economic activity of the enterprise

The system of risk assessment of transactions and agreements of foreign economic activity can be based on the following: the first stage - determining the list of risks inherent in foreign economic transactions, the second stage - assigning risk to a certain category, the third stage - determining the total risk of the transaction . Assess Risks Process Flow Diagram As in Figure (2)



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Identify risks. The risk (or event) identification process precedes risk assessment and produces a comprehensive list of risks (and often opportunities as well), organized by risk category (financial, operational, strategic, compliance) and sub-category (market, credit, liquidity, etc.) for business units, corporate functions, and capital projects. At this stage, a wide net is cast to understand the universe of risks making up the enterprise's risk profile. While each risk captured may be important to management at the function and business unit level, the list requires prioritization to focus senior management and board attention on key risks. This prioritization is accomplished by performing the risk assessment. Develop assessment criteria. The first activity within the risk assessment process is to develop a common set of assessment criteria to be deployed across business units, corporate functions, and large capital projects. Risks and opportunities are typically assessed in terms of impact and likelihood. Many enterprises recognize the utility of evaluating risk along additional dimensions such as vulnerability and speed of onset. Assess risks. Assessing risks consists of assigning values to each risk and opportunity using the defined criteria. This may be accomplished in two stages where an initial screening of the risks is performed using qualitative techniques followed by a more quantitative analysis of the most important risks. Assess risk interactions. Risks do not exist in isolation. Enterprises have come to recognize the importance of managing risk interactions. Even seemingly insignificant risks on their own have the potential, as they interact with other events and conditions, to cause great damage or create significant opportunity. Therefore, enterprises are gravitating toward an integrated or holistic view of risks using techniques such as risk interaction matrices, bow-tie diagrams, and aggregated probability distributions. Prioritize risks. Risk prioritization is the process of determining risk management priorities by comparing the level of risk against predetermined target risk levels and tolerance thresholds. Risk is viewed not just in terms of financial impact and probability, but also subjective criteria such as health and safety impact, reputational impact, vulnerability, and speed of onset. Respond to risks. The results of the risk assessment process then serve as the primary input to risk responses whereby response options are examined (accept, reduce, share, or avoid), cost-benefit analyses performed, a response strategy formulated, and risk response plans developed. Risk category is an expert risk assessment, which for each of the types of risks is carried out on the following scale, ie the criterion method is assigned a risk category: high, medium, low. Total risk is an assessment of the risk assigned to the operation as a whole on the following scale: very high, high, medium, low . Assignment of categories is carried out by the responsible manager on operation by an expert way, or with use of a quantitative or qualitative estimation, taking into account existence of experience or negative experience in foreign economic operations. The rules for calculating the total risk of the transaction are given in table. (3)

Calculation of total risk

The first type of risk	The second type of risk	The third type of risk	The fourth type of risk	Total risk
High	High	High	High	Very high
High	High	High	Medium or low	High
High	High	Medium or low	Medium or low	Medium
High	Medium	Medium	Medium or low	Medium
Medium	Medium	Medium or low	Medium or low	Medium or low
Medium	Low	Low	Low	Low
Low	Low	Low	Low	Low

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Illustrative Vulnerability Scale		
Rating	Descriptor	Definition
5	Very High	• No scenario planning performed • Lack of enterprise level/process level capabilities to address risks • Responses not implemented • No contingency or crisis management plans in place
4	High	• Scenario planning for key strategic risks performed • Low enterprise level/process level capabilities to address risks • Responses partially implemented or not achieving control objectives • Some contingency or crisis management plans in place
3	Medium	• Stress testing and sensitivity analysis of scenarios performed • Medium enterprise level/process level capabilities to address risks • Responses implemented and achieving objectives most of the time • Most contingency and crisis management plans in place, limited rehearsals
2	Low	• Strategic options defined • Medium to high enterprise level/process level capabilities to address risks • Responses implemented and achieving objectives except under extreme conditions • Contingency and crisis management plans in place, some rehearsals
1	Very Low	• Real options deployed to maximize strategic flexibility • High enterprise level/process level capabilities to address risks • Redundant response mechanisms in place and regularly tested for critical risks • Contingency and crisis management plans in place and rehearsed regularly

As in table(4) - ustrative Impact Scale
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The total risk of the transaction can then be used to calculate the effectiveness of the transaction through the application of the risk adjustment (Table 5). In developing the need for risk management, as well as assessing the impact of foreign economic activity on the results of the enterprise will consider one of the fundamental issues in foreign economic activity: effective control and coordination of operations of enterprises engaged in foreign economic activity. For a company engaged in foreign economic activity through access to international markets through ownership of subsidiaries, there is a problem of assessing the performance of individual enterprises and comparing them with the results of the parent company and the impact of these results on shareholder value. Developing an effective management and control system for companies operating in foreign markets, companies face problems of asymmetric information and differences in the goals of the parent company and its subsidiaries; the problem is complicated by the influence of external factors, one of which, as already noted in the paper, is the currency risk, which is expressed in exchange rate fluctuations; differences in exchange rates of the parent company and its subsidiary. Thus, the system of management and control of the international company must take into account local factors of different territories, which include exchange rate fluctuations, the rules of currency regulation.

Risk adjustments

Total project risk	Risk correction
Very high	18%
High	12%
Medium	8%
Low	3%

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The tool with which the system of management and an estimation of the given factors can be realized, is the budget and system of the administrative account of the enterprise. The system should be based on the procedure and performance evaluation indicators. The stages of development of such a system of evaluation of an international company taking into account currency risk factors are: determining the basis for evaluating efficiency with the choice of the main evaluation indicator, identifying dependencies and building a map of factors, developing a budgeting and accounting system based on the selected indicator .

The implementation of the first stage in determining the main indicators of evaluation is usually due to the inconsistency of the targets used by the parent company and its subsidiaries, as they have some independence, other risk benefits and organizational strategies.

For example, corporate goals focus on high return on sales or return on investment, while the goal of individual subsidiaries operating in new product markets may be to increase sales. Also, the differences relate to the order of formation of the price of the product, capital investments and compensation schemes for staff; at the same time, the parent company monitors costs to confirm that the subsidiary adheres to corporate policy and the analysis of budget execution is seed by comparing actual data from operational or accounting with the data planned in the rocess of budget formation. Further, the obtained deviations of the plan from the fact are compared, based on the influence of such factors as price and volume, endogenous or exogenous factors of management of a foreign subsidiary, which affect the results of activities .

Thus, the goals of the company and its divisions may be different, which should be taken into account in the goal-setting procedure and in the formation of an analytical set of strategic management of foreign economic activity of an industrial enterprise.

A separate factor that arises in the implementation of foreign economic activity by enterprises is the exchange rate used to convert the national currency of the budget of a foreign subsidiary into the main currency of the parent company. One approach to solving this problem is to use the same exchange rate in the budget and in the process of tracking actual performance.

This approach allows an international subsidiary of an international company to exchange information using an internal forward rate that best reflects expectations in exchange rate changes. Such an exchange rate will allow managers to evaluate fairly, as it eliminates sudden fluctuations in exchange rates and thus the management of a foreign subsidiary is de facto protected from unforeseen exchange rate fluctuations; while the parent company acts as a banker who acquires a budget denominated at a fixed forward rate; however, the head of the foreign subsidiary in any case remains responsible for errors in forecasting exchange rates. Another option for developing budgets for an international company is to use multiple scenarios that consider possible changes in exchange rates and make appropriate adjustments to costs and operating cash flows; but this method also has shortcomings in the assessment of activity in fact with a significant discrepancy between the underlying scenarios and the actual results .

Conclusions.

The limitation is one of the most frequently used risk management tools is to develop standards that establish upper and lower limits of the use of borrowed funds, the loan to the buyer and the use of highly liquid assets. Coating loss out of current income is characterized by insignificant financial losses, the company offset the lost funds due to current profits.

Covering the risk from the reserve Fund of the company is that the company forms due to the working capital reserve Fund which will be allocated part of the funds to cover the financial losses associated with the occurrence of various risks.Self-insurance provides for the establishment by the company of its own reserve funds, but cover mostly homogeneous risks.

Risk insurance involves the transfer of liability for risks from the company of the policyholder to the insurance company for a fee – the premium. The insurance company creates its own Fund at the expense of insurance payments. Diversification, in this case, is understood as a consistent, planned activity of the company aimed at increasing the specificity of its functioning, implementation of new ways of doing business and attracting other financial assets for further investment, by an allocation of investments. Localization of risks is used when there is a possibility to determine accurately the nature of risk and its causes. This method can be attributed to the creation of venture capital enterprises; the creation of separate units for implementation of risky projects; a joint venture with other companies. Risk hedging is a set of measures aimed at reducing certain financial risks and obtaining certain guarantees for the success of future transactions. Basically hedging is used to minimize costs when fluctuating market rates using options, futures, forwards and swaps . Therefore, we can conclude that any kind of activity is associated with a very large amount of risk affecting the performance of the same activity, and when entering the international markets, all these risks are increased many times over. Choosing and using a risk management method requires serious consideration of the current economic situation and the existence of certain conditions. The need for businesses to enter new markets is very high today, and risk is an integral part of foreign economic activity. Therefore, enterprise managers must anticipate potential risks and be able to manage them effectively. Thus, an enterprise conducting foreign economic activity inevitably faces the risks which can prevent it from making a stable profit. Well-timed prevention of risks and application of measures aimed at minimization of their consequences or avoidance of their negative influence will favour sustainable foreign economic activity and development of an enterprise.

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Risks in foreign economic activity of an enterprise have been examined. The ways of risks prevention or avoidance of their negative effect have been suggested.

Key words: risk, foreign economic activity, effect.