EFFICIENT RISK MANAGEMENT STRATEGIES IN THE ROMANIA BUSINESS ENVIRONMENT

MIRELA ILOIU *

ABSTRACT: *In a volatile economic environment, risk management is a key factor for maintaining the stability and growth of companies. This article analyses successful strategies applied in four key sectors of the Romanian economy: banking, IT, manufacturing and retail. The case studies highlight innovative measures, such as digitalizing financial services to prevent fraud (Banca Transilvania), diversifying markets to reduce economic dependence (UiPath), automating processes for efficiency and sustainability (Dacia), and optimizing logistics to adapt to market changes (eMAG). These examples demonstrate that proactively adapting to risks allows companies to transform challenges into opportunities for sustainable development.*

KEY WORDS: *efficient strategies, risk management, business environment, digitalization, proactively adapting*.

JEL CLASSIFICATIONS: *M10, O14.*

1. INTRODUCTION

In a dynamic and unpredictable business environment, effective risk management is an essential factor for the success of organizations. Romania, as an emerging economy, faces economic, legislative, operational and technological risks, which can influence the stability and competitiveness of companies. This article explores the main risk management strategies applicable in the Romanian business environment, focusing on methods for identifying, assessing and reducing risks. Through a comparative analysis and relevant case studies, the paper highlights innovative solutions for increasing the resilience and adaptability of companies in the face of current challenges.

* *Lecturer, Ph D., University of Petroşani, Romania,* mirelailoiu@yahoo.com

2. IDENTIFICATION AND CLASSIFICATION OF RISKS IN THE BUSINESS ENVIRONMENT IN ROMANIA

Effective risk management begins with a rigorous process of identifying and classifying risks. In the Romanian business environment, companies are exposed to multiple types of risks that can affect stability and economic performance. These can be grouped into four main categories: economic, legislative, operational and cyber risks (Drucker, 2019).

2.1. Economic risks

Economic risks are the most common and can directly affect the profitability and viability of businesses. Among the main economic challenges faced by companies in Romania are:

- High inflation - Rising prices affect consumers' purchasing power and increase firms' operating costs. Romania has recorded inflation above the European average, which creates economic uncertainty and reduces firms' competitiveness (Stiglitz, 2021).
- Exchange rate fluctuations - Leu-euro instability can affect import and export prices, having a direct impact on companies' profitability (Krugman, 2020).
- Budget deficits and rising public debt - Unpredictable fiscal measures can lead to economic instability that affects both the private and public sectors (Porter, 2019).
- Declining market demand - During periods of economic recession, consumer confidence declines, which affects company revenues and leads to reduced investment (Samuelson & Nordhaus, 2020).

2.2. Legislative and regulatory risks

The business environment in Romania is influenced by frequent changes in legislation and the complexity of fiscal and administrative regulations. These risks include:

- Frequent changes in tax legislation - Sudden increases or decreases in taxes can destabilize the business environment, forcing companies to adjust their financial strategies (North, 2018).
- Excessive bureaucracy - Cumbersome administrative processes reduce the efficiency of companies and affect the investment environment, being a major obstacle to the development of small and medium-sized enterprises (Friedman, 2017).
- Political instability and lack of predictability - Frequent changes in government and economic policies generate uncertainty among investors and entrepreneurs.
- High level of corruption and lack of transparency - Corruption affects fair competition in the market and limits companies' access to public contracts and strategic resources.

2.3. Operational risks

Operational risks are associated with deficiencies in infrastructure, supply chains, human resources and internal process management. Among the most relevant operational risks in Romania are:

- Infrastructure deficiencies - Romania has an infrastructure deficit compared to other EU member states, which increases logistics costs and reduces the competitiveness of firms (Porter, 2019).
- Skilled labor shortage - Massive emigration of specialists has led to difficulties in recruiting and retaining qualified employees in key sectors such as IT, healthcare, and engineering (Drucker, 2019).
- Supply chain problems - Global economic crises can affect raw material supplies, leading to production disruptions and price increases (Stiglitz, 2021).
- Failures in implementing new technologies - Digitalization plays a crucial role in the success of modern businesses, and firms that do not adopt new technologies may become less competitive (Krugman, 2020).

2.4. Cyber risks

With technological advancement, companies in Romania face increasing risks in terms of cybersecurity, including:

- Cyberattacks - The increase in the number of cyberattacks on companies has generated significant financial losses and data protection issues (North, 2018).
- Poor IT infrastructure security - Many companies lack adequate security measures, which exposes them to high risks of cyberattacks and data theft.
- Strict data protection regulations - The implementation of GDPR imposes strict requirements for data storage and use, and companies that do not comply with the regulations risk significant fines.
- Excessive dependence on external software solutions - The lack of locally developed IT solutions can lead to vulnerabilities in companies' IT infrastructure (Friedman, 2017).

Romanian business environment is exposed to a wide range of economic, legislative, operational and cyber risks. Identifying and classifying these risks is an essential element of the risk management strategy, allowing companies to take proactive measures to protect their activity. By diversifying financing sources, digitizing operations and adapting to legislative changes, companies can reduce the impact of these risks and maintain their competitiveness in the market (Stiglitz, 2021).

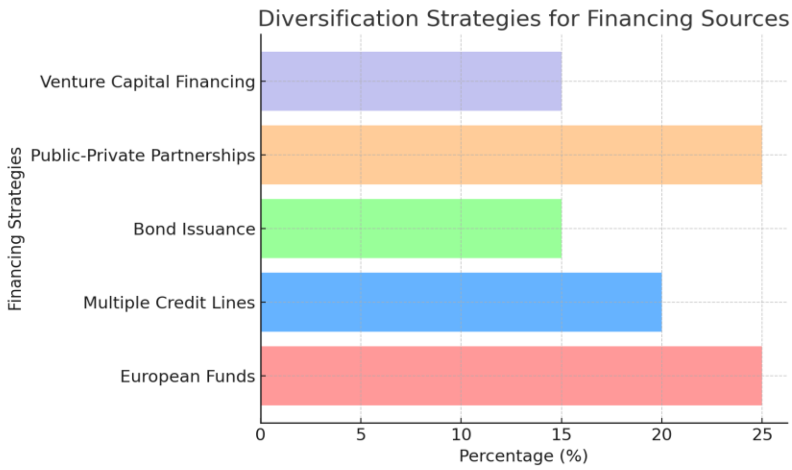
3. RISK REDUCTION AND TRANSFER METHODS

Managing risks in the business environment requires a strategic approach, based on effective techniques for reducing and transferring them. Among the most widely used methods are the diversification of financing sources, the use of insurance, cybersecurity measures and hedging contracts. These strategies allow companies to protect their assets, minimize losses and ensure operational continuity (Kaplan & Mikes, 2016).

3.1. Diversification funding sources

Diversifying funding sources is essential to reduce the risks associated with excessive reliance on a single lender or capital market. The main methods used include:

- Accessing European funds - Helps companies reduce their exposure to capital market fluctuations through non-repayable financing (Brigham & Ehrhardt, 2020).
- Multiple lines of credit - Allows access to liquidity from multiple sources to avoid financial bottlenecks (Damodaran, 2019).
- Bond Issuance - Alternative to bank loans for obtaining capital without diluting control over the company.
- Public-private partnerships - Reduce financial risks by sharing costs and benefits with government entities.



Source: Brigham & Ehrhardt, 2020; Damodaran, 2019

Figure 1. Strategies for diversifying funding sources

3.2. Using insurance for risk transfer

Insurance is one of the most effective methods of risk transfer. It allows companies to transfer the financial impact of unforeseen events to an insurance company, thus protecting capital and operational continuity (Hubbard, 2020). Main types of insurance used in business:

- Financial risk insurance - Protects companies against losses generated by customer insolvency or currency market fluctuations (Cummins & Venard, 2019).
- Liability insurance - Provides protection against damages caused to third parties through the company's activities (Rejda & McNamara, 2021).

- Property damage insurance - Covers losses caused by fires, earthquakes, theft, etc.
- Cyber insurance - Protects against cyber-attacks and loss of sensitive data (Gordon et al., 2020).

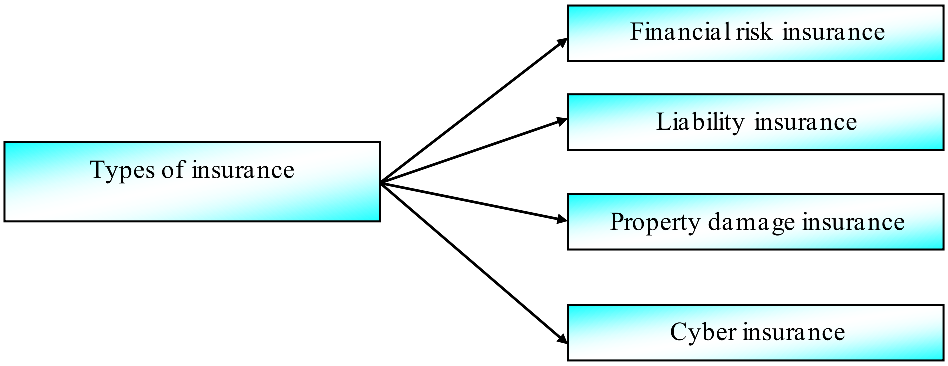
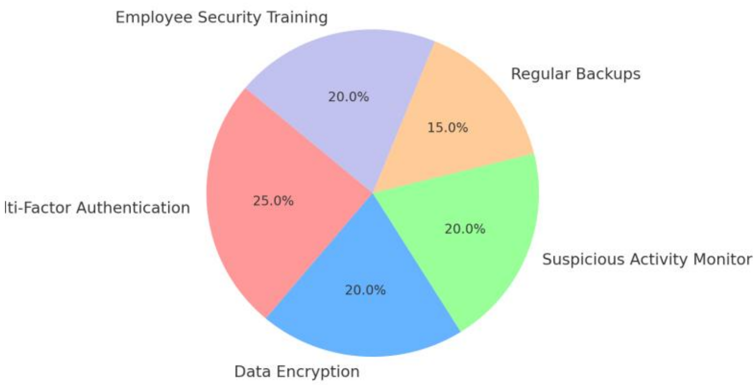


Figure 2. Types of insurances

3.3. Implementation of cybersecurity measures

With the digitalization of business, cybersecurity has become a major priority to reduce the risks associated with cyber-attacks. Among the most effective measures are:

- Multi-factor authentication (MFA) - Reduces the risk of unauthorized access to company data (Schneier, 2019).
- Data Encryption - Ensures protection of sensitive information against cyberattacks.
- Regular backup and data recovery policies - Minimize the impact of ransomware attacks.
- Employee Cybersecurity Training - Risk Awareness Reduces Internal Vulnerabilities.



Source: NIST, 2023

Figure 3. Cybersecurity measures in companies

3.4. Hedging contracts to minimize financial risks

Hedging is a strategy used by companies to reduce exposure to market risks, such as currency fluctuations, commodity price variations, and interest rate changes. The main hedging instruments include:

- Futures contracts - Allows locking in a future price to protect against fluctuations
- Financial options - Provides the right, but not the obligation, to buy or sell an asset at a predetermined price (Black & Scholes, 2018).
- Currency and interest rate swaps - Protect companies against risks associated with exchange rates and interest rates (Fabozzi, 2020).
- Geographic diversification of investments - Reduces the risk of loss in the event of economic instability in a particular region (Bodie et al., 2021).

Risk reduction and transfer methods are essential for maintaining the stability and competitiveness of companies in a dynamic economic environment. Diversifying funding sources, using insurance, cybersecurity measures, and hedging contracts provide a robust framework for protection against financial and operational losses. By implementing these strategies, companies can ensure business continuity and increase resilience to emerging risks (Kaplan & Mikes, 2016).

4. THE IMPACT OF REGULATIONS AND GOVERNMENT POLICIES

In a dynamic economic environment, government regulations and policies play a crucial role in shaping the stability and competitiveness of companies. Frequent legislative changes can have significant effects on the business environment, influencing factors such as taxation, labor regulations, access to finance, and global competitiveness (North, 1990). This chapter analyzes the impact of regulations on the stability of companies in Romania and proposes adaptation strategies to maintain competitiveness in a volatile economic environment.

4.1. The effect of legislative changes on the stability of companies

Tax regulations and the impact on profitability

Tax policies can directly influence the stability of companies through changes in taxation, VAT, or tax breaks granted to certain industries. Increasing taxes can reduce firms' profit margins, while tax breaks can encourage investment (Stiglitz, 2015). For example, a sudden change in the tax regime can affect companies' cash flows and increase compliance costs.

In Romania, frequent changes to the tax code have generated uncertainty for companies, affecting financial predictability and long-term planning. The increase in VAT from 19% to 24% in 2010 and its return to 19% in 2017 exemplified the impact of fiscal instability on the business environment (Ministry of Finance, 2023). Also, the introduction of the solidarity tax for companies with high turnovers has increased operational costs, affecting their competitiveness.

Labor regulations and operational costs

Changes in labor laws, such as minimum wage increases, changes in employment contract regulations, or new workplace safety requirements, can impact companies' operating costs. These changes can create financial pressures on small and medium-sized enterprises, which have limited resources to adapt.

Thus, frequent changes in the minimum wage have had a major impact on SMEs in Romania. For example, the increase in the gross minimum wage from RON 1,250 in 2016 to RON 3,300 in 2024 has significantly increased wage costs for employers (INS, 2024). Although these measures support the purchasing power of employees, they can reduce firms' profit margins, especially in labor-intensive sectors such as manufacturing and agriculture.

Trade policies and the impact on competitiveness

International trade regulations, including tariffs and export/import restrictions, can influence the competitiveness of firms in foreign markets (Porter, 1998). For example, changes in import tax policies can affect supply chains and production costs for industries dependent on imported raw materials.

Romania's accession to the European Union brought significant benefits in terms of access to the European single market, but also new trade regulations. The implementation of product safety and consumer protection rules generated additional costs for local companies, which had to comply with EU standards (European Commission, 2023). At the same time, the elimination of customs duties allowed Romanian companies to expand their exports, but exposed them to increased competition from Western companies.

Environmental protection regulations

The adoption of stricter environmental policies can increase operating costs for companies, but can also stimulate innovation and the transition to more sustainable practices. New regulations on carbon emissions or waste management require firms to make additional investments for compliance.

The transition to a green economy imposed by the European Green Deal imposes new regulations on Romanian companies, especially in energy-intensive sectors. The introduction of CO_2 taxes and sustainability reporting obligations require additional investments in green technologies and energy efficiency (Ministry of the Environment, 2023). These measures may generate financial difficulties in the short term, but in the long-term offer opportunities for innovation and access to European funding for sustainable projects.

5. STRATEGIES FOR ADAPTATION TO A VOLATILE ECONOMIC ENVIRONMENT

5.1. Diversification of income sources and market expansion

To minimize the impact of legislative changes, companies can diversify their product and service portfolio, access new markets and reducing dependence on regulations in a single jurisdiction (Teece, 2010).

In the context of fluctuating regulations, Romanian companies adopt strategies of product and service diversification, as well as expansion into foreign markets to reduce dependence on local regulations. For example, the Romanian IT sector has managed to grow by attracting international clients, thus reducing exposure to domestic tax changes (ARIES, 2023).

5.2. Process automation and digitalization

Adopting advanced technologies can reduce operational costs and increase companies' efficiency in the face of legislative changes. For example, digitizing accounting and financial processes can reduce the costs of complying with tax regulations. Adopting digital solutions allows companies to reduce administrative costs and improve their compliance with tax and accounting regulations. For example, the implementation of electronic invoicing and the use of ERP solutions have helped companies to more efficiently manage the requirements imposed by ANAF (ANAF, 2023).

5.3. Lobbying and involvement in legislative processes

Companies can influence regulations by actively participating in public consultations, collaborating with business organizations, and initiating dialogues with policymakers. Involvement in policymaking can help firms prevent unfavorable regulations. Romanian companies in regulated sectors actively participate in public consultations and collaborate with business associations to influence legislative decisions. For example, the transport sector obtained favorable changes in the legislation on fuel excise duties through dialogue with the authorities (UNTRR, 2023).

5.4. Proactive compliance strategies

Proactive approach to regulations helps companies prepare for legislative changes and avoid sanctions. Implementing tax and legal compliance programs can reduce the risk of fines and penalties (Scott, 2008). In Romania, this approach would allow companies to avoid sanctions and benefit from tax incentives. For example, companies that invest in green technologies and comply with ESG standards can access non-repayable European funding for their projects (AFM, 2023).

6. CASE STUDIES ON GOOD PRACTICES IN RISK MANAGEMENT IN ROMANIA

Effective risk management is essential for maintaining the stability and growth of companies in various industries. In Romania, the banking, IT, manufacturing and retail sectors have implemented innovative strategies to reduce economic, operational and cyber risks. This section reviews some relevant case studies on the application of successful risk management practices.

6.1. Banking sector - Digitalization and cybersecurity strategy

Case study: Banca Transilvania - Investments in cybersecurity and digitalization

Banca Transilvania, one of the largest financial institutions in Romania, has implemented a comprehensive cybersecurity and digitalization program to reduce the risks associated with fraud and cyber-attacks. In recent years, the bank has invested in:

- Multi-factor authentication (MFA) for customers and employees, reducing the risks of unauthorized access.
- Advanced transaction monitoring based on artificial intelligence to detect fraud attempts. (ANSSI, 2022)
- The expansion of online and mobile banking services, which increased efficiency and reduced dependence on physical branches.

Thanks to these measures, Banca Transilvania has significantly reduced security incidents and strengthened customer trust, becoming a leader in the digital banking market in Romania.

6.2. IT Sector - Risk Management through Diversification and Outsourcing

Case Study: UiPath - Global Expansion and Market Diversification Strategy

UiPath, the Romanian software automation company, has adopted a strategy to reduce economic and geopolitical risks by:

- Market diversification - rapid expansion into markets in the US, Asia and Europe to reduce dependence on a single region (UiPath, 2023).
- Outsourcing non-essential operations - delegating support activities to specialized providers to optimize costs.
- Continuous investment in research and development (R&D) - maintaining a competitive advantage through constant innovation.

Through these measures, UiPath has become a global leader in robotic process automation (RPA), minimizing the risks associated with local economic instability.

6.3. Manufacturing Sector - Reducing Risks through Automation and Sustainability

Case Study: Dacia - Supply Chain Optimization and Energy Efficiency

Dacia, the most important car manufacturer in Romania, has implemented strategic measures to reduce operational and supply risks:

- Automation of production lines - using industrial robots to improve efficiency and reduce human error. (Renault Group, 2022).
- Developing strategic partnerships for supply - collaborating with European suppliers to reduce risks associated with fluctuations in raw material prices.
- Investments in sustainability - modernization of factories to reduce energy consumption and CO_2 emissions. (Ministry of Environment, 2023).

Through these strategies, Dacia managed to optimize its costs and consolidate its position on the European automotive market.

6.4. Retail sector - Digitalization and adaptation to consumer behavior

Case study: eMAG - Adapting to market changes through digital innovation

eMAG, the largest online retailer in Romania, has adopted innovative strategies to reduce economic and logistical risks:

- Expansion into Eastern Europe - entering the markets of Hungary and Bulgaria to reduce dependence on the Romanian market. (eMAG, 2023).
- Logistics optimization by developing our own ecosystem - creating the easybox delivery network and automating distribution centers.
- Investments in AI and big data - analyzing consumer behavior to personalize offers and increase conversions.

Thanks to these measures, eMAG managed to consolidate its dominant position on the e- commerce market and minimize the risks associated with changes in consumer behavior.

6. CONCLUSIONS

The analysis conducted in this paper reveals that effective risk management is essential for the success of companies in various industries. The digitalization of financial and operational processes has been a key factor in reducing economic and operational risks, and the diversification of markets has helped companies protect their revenues in the face of local economic instabilities. Also, the optimization of supply chains and the use of emerging technologies have contributed to increasing efficiency and competitiveness.

In addition to these strategies, investments in cybersecurity have proven essential in the banking and retail sectors, protecting customer data and reducing the risk of cyberattacks. In the manufacturing sector, process automation has increased productivity and reduced the impact of workforce fluctuations. At the same time, adopting sustainability measures has provided companies with long-term advantages by reducing energy costs and complying with environmental regulations.

The analyzed case studies highlight the importance of implementing proactive risk management strategies to maintain the competitiveness of companies in Romania. Each economic sector has adopted specific solutions to mitigate financial, operational, and cybersecurity risks, demonstrating that adaptability and innovation are essential in today's economic environment.

The digitalization of banking processes and e-commerce has proven crucial in reducing security risks and financial uncertainty. IT and manufacturing companies have used diversification and automation strategies to consolidate their market positions and reduce economic vulnerabilities. In the retail sector, logistics optimization and data analysis have enabled better anticipation of consumer behavior and rapid adaptation to market changes.

Moreover, investments in cybersecurity have become a necessity in all economic sectors, playing a crucial role in protecting digital assets and customer data. Additionally, integrating sustainability principles into business strategies not only ensures compliance with environmental regulations but also optimizes long-term costs.

Thus, companies that adopt a strategic and innovative approach to risk management not only reduce their vulnerabilities, but also create a significant competitive advantage. In a volatile economic environment, flexibility, digitalization and adaptability remain key factors for long-term business success and sustainability.

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