

## SPECIFICS OF RISK MANAGEMENT OF ENTERPRISE TRANSFORMATION IN INTERNATIONAL BUSINESS

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**Abstract:** Today, international business faces a greater number of risks than ever before. This article delves into and evaluates the risks associated with the transformation of companies operating in the international market. Transformation involves a shift in the company's strategic approach and mindset. In the contemporary business environment, continuous changes and trends present managers with a variety of new challenges. In these conditions, managers must maintain both an internal and external orientation, make rapid decisions, be perpetually ready for new challenges and risks, and display high levels of energy and entrepreneurial spirit. For companies, this means engaging in constant transformation processes and adjusting their strategies, structures, and roles. Drawing from the analysis of both domestic and international theoretical and practical research, this article emphasizes the necessity of investigating the impact and management of risks associated with enterprise transformation in international business. The analysis includes companies from Western, Central, and Eastern Europe, as well as those from Bosnia and Herzegovina. The goal of the paper is also to compare the assessments and positioning of

Bosnia and Herzegovina in transformation processes with other transitioning countries.

**Key words:** Risk management, transformation, international business, strategy

**JEL classification:** D81, G32, G34, F

### 1. INTRODUCTION

Company transformations involve the continuous adjustment of business strategies, structures and operations to respond to dynamic market conditions and competition. To that end, it is also linked to a change in strategy and the creation of a new, better strategic option. These processes carry with them high degrees of risk. This is especially evident in the case of companies operating on the international market as part of international business. How to position yourself in such circumstances is a big challenge for companies from Bosnia and Herzegovina.

To this end, a strategic approach is necessary. The focus of the company's strategic positioning is directing the vision and goals towards occupying an adequate strategic position on the competitive

market. The logic of strategic positioning is linked to strategic restructuring in order to improve the company's position. The concept of positional approaches developed in the 80s of the last century, with the works of Henry Mintzberg (Mintzberg, 1998, p. 83-92) in the field of global strategic positioning and Michael Porter (Porter, 2008) from the field of competitive advantage and competitive strategies. According to them, successful strategies and good companies must take into account strategic positioning and the effects these strategies have on business and operations. Frequent competitive battles for market share often result in legal processes.

This is primarily generated by the need for the company not to be surprised by losses from business, a decrease in market share, the loss of previous positions or/and the loss of various business opportunities for success. Risk management in the context of this article includes looking at a change in strategy, with all its elements, mission, vision and goals. The research focus refers to new challenges through the perspective of readiness to accept risks. These questions include analyzing the methods companies use to identify and assess risk, as well as developing flexible and adaptive strategies. It also explores how these strategies can be implemented to ensure sustainable growth and competitiveness in the global market. Through this approach, the research aims to provide guidance to managers in making strategic decisions in unpredictable business environments.

"What is the assessment of the situation in Bosnia and Herzegovina from the point of view of risk management of enterprise transformation?" "What is the situation in relation to other transition countries"? In this connection, the research hypothesis of the article arises. H0: "There are no significant differences in the impact of risk management on the transformation process of companies in Bosnia and Herzegovina, compared to companies in Western, Central and Eastern Europe".

From a strategic point of view, this part of the work includes defining the research approach, selection of relevant samples and application of appropriate methods for data collection and analysis, with the aim of developing effective strategies and making informed strategic decisions.

## **2. LITERATURE REVIEW THROUGH PREVIOUS RESEARCH**

Due to increasing competition in international business, companies are exposed to numerous

risks. There is country risk, risks related to political and macroeconomic trends, risks related to the business model and others. As a condition of competitiveness, it is necessary to adequately manage risks. The process of enterprise transformation follows all large successful companies (Duvnjak, 2013). In order to maintain competitiveness, companies from Bosnia and Herzegovina must transform themselves, and in that process adequately manage risks. Experiences have even shown that those organizations that had experience with monitoring changes and transformation in deal with crisis and difficult times in crisis conditions (Erić and Stošić 2013).

Risk management transformation is considered a key factor in the success of enterprise operations (Vehovec, 2003). The key role is in the hands of management structures - managers. The directions of transformation through company growth can be systematized into two basic categories, Expansion and Diversification (Involves horizontal, vertical and conglomerate growth) (Milisavljević and Todorović 1995; Duvnjak, 2013).

Also, certain risks may appear during the implementation process of the transformation program, which is a particularly sensitive issue, especially in the case of domestic companies. For adequate risk management, it is necessary to create an acceptable concept of risk management in companies, which has not yet taken root in our region, and rightly represents a new challenge for our managers.

During the process of company transformation, it is necessary to analyze risk management (Angel 1994; Duvnjak, 2010). Research in the field of enterprise transformation is also carried out by the Ronald Berger consulting firm.

According to empirical the results of conducted among the top management of companies in the USA, which in the previous period undertook extensive transformations in their operations, the main strategic goal of these changes is most often stated (in about 80% of cases) to increase profitability and the value of shares.

At the same time and in parallel with that, over 50% of those surveyed pointed out that the goal of implementing changes is to ensure cost competitiveness, productivity and quality. About 40-45% of managers pointed to the special importance of new product development and consumer satisfaction, and about 1/3 to maintaining market share. (Carr & Trahan, 1996).

The necessity of risk management is important for the success of the company transformation process, especially from the point of view of company management (Walker, 1990).

It is especially important to highlight the need to generate a strategic approach to risk management and the need to balance risks with the benefits that are created (Gogan, 2004).

Companies operating internationally are exposed to greater risks, under the pressure of a higher level of competition (Djankov, Murrell 2002). In such conditions, there is a high degree of changes and transformations that require companies to constantly monitor, adapt and respond to new challenges from the international environment (Kotter, Cohen 2002).

The strategic approach is the key to those processes, and the connection between risk management and the need to transform companies in international business is the basis of that platform (Lazonick, 2004). In addition to the above, another important moment is related to the need for a planned approach to risk management, known as a preventive approach to risk management (Todorović, Đuričin, Janošević, 2003).

### **3. RESEARCH METHODOLOGY AND SAMPLE ANALYSIS**

The research methodology is based on the concept of the comparative analysis method and the Pearson Chi-Square method ( $\chi^2$ ) in the function of testing the significance of deviation differences. The research methodology is aimed at testing whether there are significant differences in the impact of risk management on the process of transformation of companies in Bosnia and Herzegovina, compared to companies in Western, Central and Eastern Europe.

The basic research base consisted of the export companies of Bosnia and Herzegovina. The research included the largest export companies, which we ranked based on export revenue.

They comprise over 50% of the value of the realized income from exports in Bosnia and Herzegovina.

Data were analyzed for 17 companies from that category (choice fraction ( $f = 0.17$ )) in 2021 year, which accounted for over half of the value of total

exports from Bosnia and Herzegovina (7.9 billion in 2021). The largest in that category and the largest exporter from Bosnia and Herzegovina is Arcelor Mittal with a result of 546.6 million BAM in 2021 year. Based on that, the collected data represent the research base. Data on the movement of sources by company were used from Bisnoda, Bosnia and Herzegovina.

The central point of the research is directed towards the analysis of the impact of risk management of the process of enterprise transformation in Bosnia and Herzegovina in a comparative analysis with the Republic of Serbia, countries of Western Europe and Central and Eastern Europe. To this end, we used statistical tests based on the Pearson Chi-Square test.

The comparative research was carried out in order to assess the situation and perspectives in Bosnia and Herzegovina. Also, the idea is to generate guidelines with a better and easier implementation of the transformation process.

### **4. RESEARCH RESULTS AND DISCUSSION**

Regardless of the nature of the activity, every company has a certain transformation process, which includes the provision of inputs, their transformation and the realization of outputs.

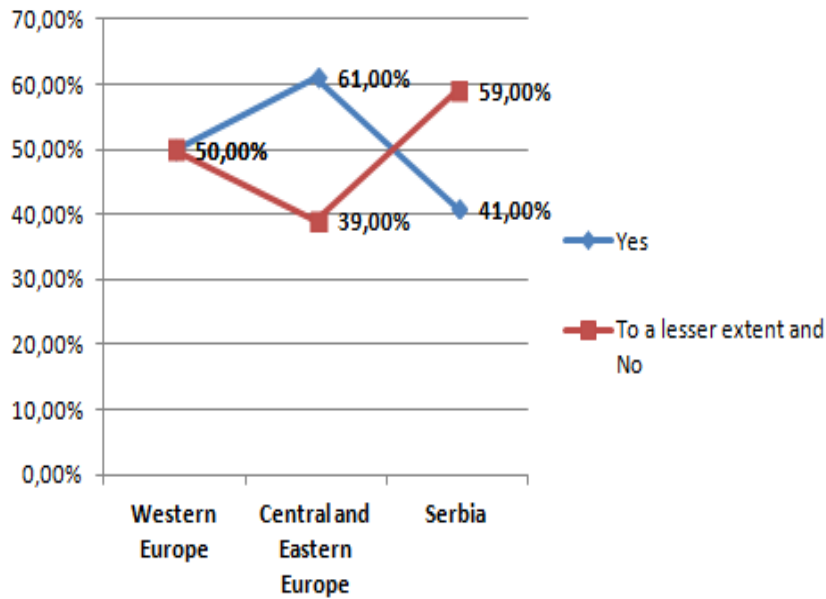
Namely, extensive reforms and transformations, primarily in the economic, market and institutional environment, led to radical changes in the overall business environment.

In addition, the dynamism of environmental factors affects that many companies, which once dominated the market without major problems, are forced to undertake extensive transformations in their operations in order to regain their dominant position, maintain market share, and even ensure bare survival in certain situations.

The focus of the analysis in this part refers to the analysis of the risk management practice of enterprise transformation in Bosnia and Herzegovina.

We will compare the obtained research results with the results of Roland Berger Strategy Consultants research. The research scope analyzed 6000 companies, and they were systematized into three categories, Western Europe (CE), Central and Eastern Europe (CEE) and Serbia.

**Chart 1.** The impact of risk management of enterprise transformation - Comparative analysis in Republic of Serbia, countries of Western Europe and Central and Eastern Europe

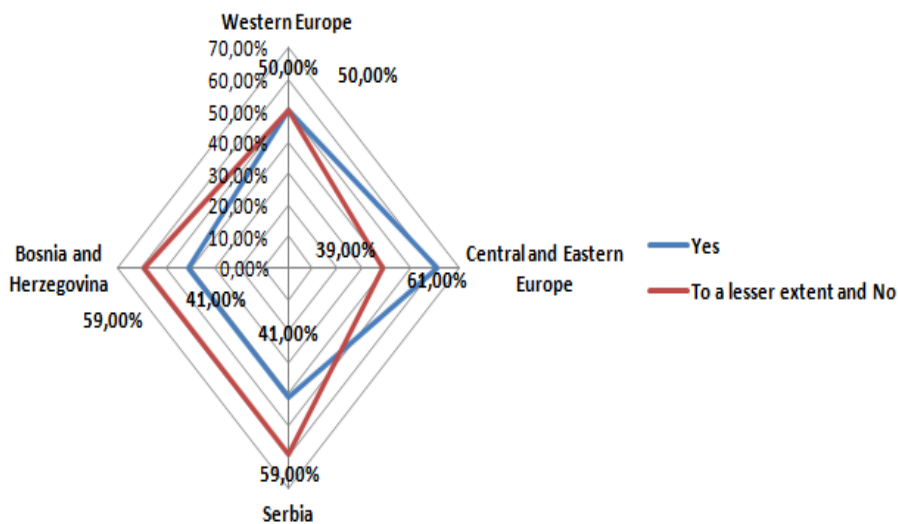


Source: Authors based

The research results show that in Western Europe there is a divided opinion on the impact of risk management on given processes, while this is not the case in Central and Eastern Europe, as well as in Serbia, where priority is given to the concept of risk management in these processes.

Below are the results of the research for Bosnia and Herzegovina, as well as a comparison of the results with the results we have reached regarding Europe and Serbia.

**Chart 2.** Comparative analysis of research results - the impact of risk management of enterprise transformation - Comparative analysis in Western Europe, Central and Eastern Europe, Serbia and Bosnia and Herzegovina



Source: Authors

Analysis of the research results shows that companies in Bosnia and Herzegovina manage risk in the transformation process, by as much as 9%

more compared to companies in Western Europe, and by 2% points less compared to companies in the countries of Central and Eastern Europe. Also,

compared to Serbia, we are at the same level. To a lesser extent, 41% of companies answered negatively for Bosnia and Herzegovina. Compared to the half, it is 50.00% in the countries of Western Europe, while it is 39.00% in the countries of Central and Eastern Europe and 41.00% in Serbia.

Based on the research results, we focused our analysis on the significance of the impact based on the Pearson test. The basis of the research is the testing of the significance of the differences on the positive attitude according to the research elements of the calculation. The research was conducted with a significance of error risk of  $\alpha=0.05$ . Testing was performed on a base value of  $B=100$ . The research focus is defined in the form of null and alternative hypotheses:

Ho:  $\pi_1=\pi_2=\pi_3=\pi_4$  (There are no significant differences between Bosnia and Herzegovina, Western Europe, Central and Eastern Europe, Serbia)

H1: At least two proportions of the basic sets differ from each other (There are significant differences between Bosnia and Herzegovina and Western Europe, Central and Eastern Europe, Serbia)

**Testing 1. Pearson test ( $\chi^2$ )**

|                                       | Value     |
|---------------------------------------|-----------|
| <i>r</i>                              | 4         |
| <i>v</i>                              | 3         |
| <i>m</i>                              | 0         |
| <i>b</i>                              | 100       |
| <i>p value</i>                        | 57,405000 |
| (1- $\alpha$ )                        | 0,95      |
| $\alpha$                              | 0,05      |
| <i>Pearson</i>                        |           |
| <i>Chi-Square <math>\chi^2</math></i> | 1,310135  |
| $\chi^2_{\alpha,v}$                   | 7,815     |

**Source:** Authors

Given that the chi-square statistic ( $\chi^2$ ) exceeds the critical value ( $\chi^2_{\alpha,v} > \chi^2$ ), we accept the null hypothesis (Ho) that the proportions  $\pi_1$ ,  $\pi_2$ ,  $\pi_3$ , and  $\pi_4$  are equal. Consequently, we reject the alternative hypothesis (H1), which posits that at least two of the proportions are different. This indicates that there are no significant differences between Bosnia and Herzegovina and Western Europe, Central and Eastern Europe, and Serbia in this regard. With a confidence level of  $1-\alpha=0.95$  and a significance level of  $\alpha=0.05$ , we conclude that risk management significantly impacts the transformation processes of companies in Bosnia

and Herzegovina, showing no substantial differences compared to companies in the other regions analyzed.

In the subsequent sections, we will employ the Pearson test to examine in a more granular manner, categorized by region. This test will be performed with a confidence level of 95%, baseline value of  $b=100$ . Accordingly, the null and alternative hypotheses for this analysis are:

Ho:  $\pi_1=\pi_2=\pi_3=\pi_4$  (There are no significant differences between Bosnia and Herzegovina, Western Europe, Central and Eastern Europe, Serbia)

H1: At least two proportions of the basic sets differ from each other ((There are significant differences between Bosnia and Herzegovina and Western Europe, Central and Eastern Europe, Serbia)

**Testing 2. Pearson test ( $\chi^2$ )**

|                     | Value     |
|---------------------|-----------|
| <i>r</i>            | 4         |
| <i>v</i>            | 3         |
| <i>m</i>            | 0         |
| <i>b</i>            | 100       |
| <i>p value</i>      | 42,685000 |
| (1- $\alpha$ )      | 0,95      |
| $\alpha$            | 0,05      |
| <i>Pearson</i>      |           |
| <i>Chi-Square</i>   | 1,726853  |
| $\chi^2$            |           |
| $\chi^2_{\alpha,v}$ | 7,815     |

**Source:** Authors

Since the calculated chi-square statistic ( $\chi^2$ ) is greater than the value ( $\chi^2_{\alpha,v}$ ), we accept the null hypothesis (Ho) that the proportions  $\pi_1$ ,  $\pi_2$ ,  $\pi_3$ , and  $\pi_4$  are equal. Therefore, we conclude that there are no significant differences between Bosnia and Herzegovina, Western Europe, Central and Eastern Europe, and Serbia. This conclusion is drawn with a confidence level of 95% ( $1-\alpha=0.95$ ) and an error probability of  $\alpha=0.05$ .

**CONCLUDING CONSIDERATIONS**

The research base is focused on the analysis and importance of risk management in the transformation of companies and the role of management in these processes. The direction of risk management activities is heavily influenced by the nature and severity of the challenges companies face in their operations. Organizations encounter numerous problems, crises, obstacles, and threats during their business activities. This

becomes particularly crucial for companies with an international orientation. Hence, this is an area that has garnered significant research interest from various authors worldwide. A common theme in most studies is the absence of a unified strategic approach, especially in the face of new challenges for company managers. It is important to note that there is no universal formula for achieving strategic goals in practice, and the proposed guidelines serve as indicators for the direction of risk management activities for companies in Bosnia and Herzegovina. Based on the previously presented analysis of research results in companies in Bosnia and Herzegovina, the null hypothesis cannot be rejected, that is, H0: „There are no significant differences in the impact of risk management on the transformation process of companies in Bosnia and Herzegovina, compared to companies in the West, Central and Eastern Europe“.

Statistical analysis of grades shows that there are no significant differences in the impact of risk management on the transformation process of companies in Bosnia and Herzegovina, compared to companies in Western, Central and Eastern Europe, considering that the research refers to export-oriented companies, which are present on the international market, the risk becomes even greater, especially under the influence of country risk, which follows Bosnia and Herzegovina in the international framework. These circumstances will certainly improve with the accession of Bosnia and Herzegovina to the European Union, which will improve the trends in the country's risk assessment.

Certain risk management activities imply much more extensive structural changes in the configuration and way of doing business of the company. In this sense, risk management implies a complex business philosophy of making a series of business decisions and undertaking a large number of actions in order to realize the business goals of the company. The business success of our companies primarily depends on internal strategic competence, which is a basic necessary condition. The next important moment relates to the need to develop and apply a strategic approach in risk management, which, when combined with strategic thinking, can significantly improve the business situation for our companies. Improving our business practice should be based on the analysis of many successful global companies, based on the principle of world experience for domestic practice. Also, many integration processes have started and require constant monitoring and adjustment, especially under the influence of new geopolitical processes that exist

in the world. For this reason, constant monitoring and follow-up of the process and timely response, even preventive management, which shows excellent results in the world, is necessary. Also, a thread of strategic thinking is necessary in the decision-making processes of enterprise risk management in our region as a response to the new challenges posed to managers.

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