A CASE STUDY AT COMPANY X

Risk analysis in doing business abroad: a case study of Company X

Master thesis

Enschede, 3 July 2018

Student

Name:	Dion Rouwenhorst
Student number:	1884174
Programme:	Master of Business Administration (MSc. BA)
Track:	Financial Management (FM)
University:	University of Twente
First supervisor:	Dr. Xiaohong Huang
Second supervisor:	Dr. Siraz Zubair
Faculty:	Behavioural, Management and Social Sciences
Department:	Finance and Accounting
Company supervisor:	X
Function:	X

Abstract

Company X has experienced tremendous growth the last years, including extension to other countries such as Kazakhstan and Turkey. Due to the favorable agriculture circumstances in Kazakhstan and Turkey there are big opportunities for Company X**.** However, additional risks are also the result from the country specific climates. The occurrence of such country specific risks in Kazakhstan and Turkey could have a negative impact on Company X and its objectives in those countries. Therefore, this case study research investigated the foreign risk exposure of Company X in Turkey and Kazakhstan including the political, economic and financial factors.

The research question of this case study is: *What is the impact of the foreign risk exposure including the political, economic and financial factors by doing business in Kazakhstan and Turkey on the firm performance of Company X and what are available options to respond and how should Company X manage them?*

In order to investigate the impact of the identified risk factors for Company X in Turkey and Kazakhstan, qualitative methods have been deployed. A survey has been used to ask country specific experts, interviews have been held with managers of the concerning subsidiaries and documentation review has been conducted to assess the country specific data provided by several professional organizations.

The results show a clear view for both countries. The risks identified for Company X by doing business in Turkey were generally assessed as relatively high risks. The most important risk for Company X by doing business in Turkey turned out to be the depreciation of the Turkish national currency, the lira. It is recommended to accept the risk of a depreciation of the lira because the costs of managing the risk are very high while the share of the company in Turkey is not high enough yet. The occurrence of catastrophic events / conflicts, an increase in local production of agricultural machinery and equipment and a decrease or ending of the subsidies to stimulate the agricultural sector in Turkey by the EU are also important risk factors for Company X in Turkey. However, managing them is difficult and very costly and so the benefit of managing the risks does not outweigh the costs. Therefore, it is recommended for Company X to closely observe several developments in Turkey for the short to medium term and when circumstances do not change, a continuation in the country should be considered.

The identified risk factors for Company X by doing business in Kazakhstan were assessed as significantly low risks, in contrast to the risks in Turkey. The exposure of the risk factors in Kazakhstan is in general limited, most risk factors are not alarming. Although, a depreciation of the national currency, the tenge, was assessed as the most significant risk for Company X by doing business in Kazakhstan. Apart from the fluctuations of the tenge, the cooperation on agricultural development between Kazakhstan and China, the succession of president Nazarbayev and the support of the Kazakh government to the agriculture sector should be monitored in the future. However, the exposure of the risks for Company X is not considerable and in addition, the results of Company X in Kazakhstan show an increased tendency. Therefore it is recommended for Company X to accept all the identified risk factors, although some specific risk factors deserve close attention.

Table of content

1. Introduction

The subject of this study focusses on the foreign risk exposure including the political, economic and financial risk factors**,** Company X faces by doing business in Turkey and Kazakhstan. Company X is a leading distributor of high-quality equipment and machinery for several industries like the agricultural industry. The Dutch company offers their customers a portfolio of well-known brands such as Amazone, Claas and Kuhn. Company X is a worldwide operating distributor with over 1.600 employees. Besides the Netherlands, the company also has departments in Belgium, Germany, the UK, Denmark, Ireland, Kazakhstan and Turkey (Company X, 2017). Since 2009 Company X has grown explosively due to several acquisitions and some divestments, that made the company an international leading distributor. The annual turnover of Company X in 2016 was € 580 million, a huge increase compared to the turnover in 2013, which was € 236,6 million (Company X, 2015).

1.1 Company description

In 1786 Hendrik X signed in at the 'Smidsgilde' and he founded the Company X in Zutphen. The company continued to grow after the establishment. Many years later, in 1959, Company X went public at the Amsterdam stock exchange (Euronext). In 2003 Company X moved their headquarter from Zutphen to Apeldoorn and in that year Company X also obtained the 'Royal' title (Company X, 2018). Company X left the stock exchange recently and in the summer of 2016 the investment companies Gilde, Todlin and Navitas took over the shares of Company X for € 140 million (Ten Bosch, 2016).

The distributor of high-quality equipment and machinery adds value to their customers by providing a wide range of well-known brands combined with specialized knowledge about the products and markets and delivering a high degree of service. The machinery Company X distributes is used in the agriculture and horticulture, landscaping maintenance, ground, road and water construction and logistics sector. As shown in figure 1, the company is divided into two segments: Company X Equipment and Company X Industries. The Equipment part is furthermore divided into three divisions named: Company X Green Equipment, Company X Construction Equipment and Company X Material Handling Equipment (Company X, 2018).

Figure 1. Organizational structure of Company X (Company X, 2018)

Since 2009 Company X increased explosively. In 2010 the company had 364 employees and their turnover was € 190 million (Company X, 2010). For comparison, Company X had 1600 employees and a turnover of € 580 million in 2016 (Company X, 2017). In that year the company was even the second fastest growing company of the Netherlands (Erasmus Centre for Entrepreneurship, 2017).

Furthermore, internationalizing the activities has reached a higher level recently. In 2014 Company X acquired the dealer company CT Agro in Kazakhstan and Company X acquired APH Group in order to reach the Turkish market in 2015 (Boerenbusiness, 2015). The turnover in the Kazakhstani market was high immediately. In 2016 the turnover achieved in Kazakhstan by Company X was € 48 million despite some setbacks. According to the annual report of Company X, 2016 was the first year in the company's history with more than 50% of the total turnover generated outside the Netherlands (Company X, 2017).

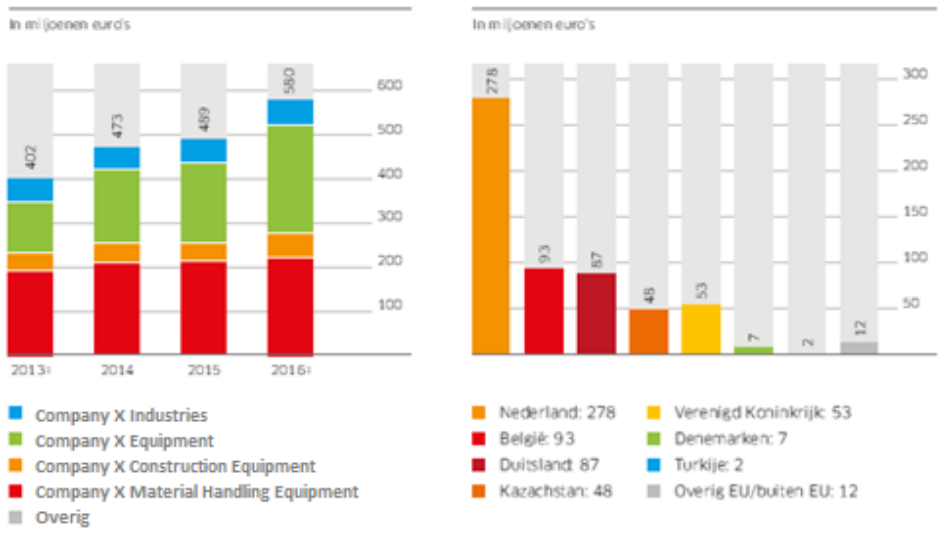


Figure 2. Turnover 2013 - 2016 and turnover distribution per country (Company X, 2017)

Vision, mission and strategy

The world faces a huge challenge. According to the annual report of Company X (2017), there are over 9 billion people around the world who need to be fed in 2050. Due to the growth of the population and the increasing consumption needs that follow, it is expected that the demand for food will increase with 35%. This means that areas where farming land is scarce, will have to increase the production per hectare. Therefore highly qualified production methods and machines are needed. On the other hand, it means that there will be a strong exponential growth in the demand for high-quality machines and equipment in areas where technological developments are at a relatively lower level than Western Europe. Due to this expectation, the world is facing a big economic, environmental and social challenge. The need for sustainable innovations is becoming more urgent and therefore it is the vision of Company X to deliver innovative and sustainable solutions that will make a positive contribution to worldwide challenges.

It is the mission of Company X to become a 'major full line distributor in equipment' (Company X, 2014). The company wants to be an indispensable player in their supply chain by having the specialized knowledge of the products and markets. In order to achieve the objective, Company X has drawn up their strategy including the following points (Company X, 2014):

- Diversification of the activities based on the installed base model

- Internationalizing of the activities
- Further development of the organizational competencies
- Exploitation of high-quality brands and concepts
- Extension in adjacent markets with synergy opportunities

1.2 Problem setting and research questions

Company X has experienced tremendous growth the last years, including extension to other countries like Kazakhstan and Turkey. Due to the favorable agriculture circumstances in Kazakhstan and Turkey there are big opportunities for Company X**.** According to the World Bank Group (2016) the Kazakh agricultural sector accounted for 4,7% of the GDP in 2014 and the country has roughly 200 million hectares qualified as agricultural land. Kazakhstan has evolved into a market economy and so the agricultural sector is run by private farms and holdings and they are free to operate with their own investment plans. In addition, nearly 80% of the machinery currently in use in Kazakhstan's agricultural sector is at the end of its lifecycle and needs to be replaced (The U.S. Department of Commerce's International Trade Administration, 2016). Local production of the agricultural machinery and equipment is meaningless. According to The U.S. Department of Commerce's International Trade Administration (2016) the Kazakhstani agricultural machinery and equipment sector was estimated at about $ 500 million in 2014, of which $ 400 million was imported. Furthermore, there is an annual growth of 3% expected of the agricultural sector from 2017 till 2020, driven by government incentives (IFWexpo, 2017).

Turkey also has a large and growing agriculture industry which, according to the World Bank Group (2018), accounted for 8,0% of the country's GDP in 2014. Turkey has around 40 million hectares agricultural land available and although there are no exact figures, the agricultural machinery and equipment sector is estimated at $ 1.5 billion (Moment, 2013). The agricultural structure of Turkey is modernizing rapidly, the sector is currently undergoing a restructuring process. Farmers are encouraged by the Turkish government to adopt modern techniques (Efe, 2016). They receive diesel fuel support, chemical fertilizer support, training for the latest agricultural techniques as well as tax benefits and favorable loans (Ministerie van Landbouw, Natuur en Voedselkwaliteit, 2017).

So, both countries are interesting for Company X to expand to. Although there are big opportunities with the extension to Kazakhstan and Turkey, Company X will also be exposed to additional risks resulting from the host-country specific climates (e.g. political, economic, financial and social climates). Company X has already experienced some specific country risk events since it has been active in Kazakhstan and Turkey. In 2015 the market price of the Kazakh currency, the tenge, decreased with 23% (Van Tongeren, 2015) and due to the oil crisis the country experienced economic depression. Turkey experienced a coup d'état in 2016 (AP News, 2016) and the country also encountered large fluctuations in their national currency. The occurrence of such country specific risks in Kazakhstan and Turkey could have an impact on Company X and its objectives in those countries, such as decreasing the revenue, profitability or market share.

So, Kazakhstan and Turkey both have recent histories of political, economic and financial instability. Due to the rapid growth of Company X including the recently extension to Kazakhstan and Turkey a systematic approach to assess the risk exposure by doing foreign business in those countries is desirable. Therefore, the goal of this thesis is to identify the foreign risk exposure including political, economic and financial factors Company X faces by doing business in Kazakhstan and Turkey, assess

the impact of the risk factors on the performance of the firm (profitability) and evaluate the available options to manage the risks in order to give recommendations. To achieve this goal the following research question and sub questions were drawn up and have to be answered:

Research question
What is the impact of the foreign risk exposure including the political, economic and financial factors by doing business in Kazakhstan and Turkey on the firm performance of Company X and what are available options to respond and how should Company X manage them?

Sub Questions
- What kind of risk management frameworks are present in the literature?
- What are the risk factors for Company X by doing business in Kazakhstan and Turkey?
- What is the probability of occurring of the risk factors?
- What is the potential impact of the occurring risk factors on the firm performance of Company X?
- What are the available options to respond to the risk exposure?

1.3 Potential contributions

This study to assess the foreign risk exposure of Company X in Kazakhstan and Turkey is a relevant research in many ways. Kazakhstan and Turkey provide huge opportunities for western companies active in the agricultural industry. Due to the economic growth and the government incentives to modernize and restructure the sector, both countries have become an interesting market. However, doing business in Kazakhstan and Turkey also brings additional risks with it. The countries have recently experienced country specific political, economic and financial instabilities which could impact companies by doing business abroad in these countries. Therefore, studying the risk exposure of doing business in Kazakhstan and Turkey has a significant practical contribution for all firms that operate or plan to enter these two markets.

This study is a detailed empirical investigation into a specific case and the uniqueness of the case makes a contribution to the theory. Recently there are no previous studies made to the foreign risk exposure of doing business in Kazakhstan and Turkey. Furthermore, the typical features of these emerging economies could be migrated to the analyses of other emerging economies or economies with political uncertainties since many features of countries with these specifications are common characteristics. In addition, the application of the risk management framework in this study is a contribution to the theory since the framework is usable for other risk analyses.

1.4 Outline

The structure of this thesis is divided into several parts. Chapter 2 is a critical literature review of risk. The different definitions of risk, several types and classifications of risk and in particular country risk are discussed. In chapter 3 the common risk management frameworks, mentioned in the literature, are discussed. The advantages and disadvantages of the different frameworks are considered and this chapter ends with a synthesis in 3.4, discussing the most suitable framework to consult. Subsequently the research method used in this case study is explained in chapter 4 and thereafter the data sources used in this research are described in chapter 5. Next, the results of the case of Turkey are presented in chapter 6 and the results of the case of Kazakhstan are presented in chapter 7. In chapter 8 a conclusion is made and the thesis ends with the limitations of this research and suggestions for further research in chapter 9.

2. Risk

This literature review is a description and critical analysis of what has been written by other authors. The purpose of the review is to analyze the most relevant research and literature about risk critically. Reviewing the literature will provide understanding and insights of the subject and it will therefore function as a foundation for the study. While reviewing the literature, the focus is on scholarly- and recent articles. Most desirable are articles that have been published within the past five years. However, it is possible that articles older than five years include relevant information and these are therefore also included in the literature review.

2.1 What is risk?

Before it is possible to understand which type of risks there are by doing business in Turkey and Kazakhstan and what their impact is, there should be a univocal understanding of the definition of risk. In the literature there are numerous definitions of risk and the term uncertainty is also commonly used.

Risk is defined by Cooper et al. (2005) as the exposure to the consequences of uncertainty. In the context of a company, it is the chance of something happening that will have an impact on the company's objectives. Cooper et al. (2005) furthermore argue that risk includes the possibility of loss or gain, or variation from a desired or planned outcome, as a consequence of the uncertainty associated with following a particular course of action. So risk exists of two elements which are the likelihood or probability of something happening and the consequences or impacts if it does. The definition of Aven and Renn (2009) also points out the two elements of probability and consequences as they define that risk refers to uncertainty about and severity of the consequences or outcomes of an activity. Ayyub (2012) explains that risk can be defined as the potential of losses and rewards resulting from an exposure to a risk event. Risk can be calculated by the probability of an event occurring and the outcomes or consequences associated with the occurring of the event. Hillson (2004) furthermore gives a general definition of risk as any uncertainty that, if it occurs, would affect one or more firm objective. In addition to the claim of Cooper et al. (2005) that risk includes the possibility of loss or gain, Hillson (2004) also argues that risk can have both positive and negative consequences on firm objectives. Hillson (2004) furthermore makes a distinction between risk and uncertainty where he claims that risk is measurable uncertainty and uncertainty is unmeasurable risk. This distinction is also defined by Lefley (1997) who defines that risk involves situations where the probability of outcomes is known, while for uncertainty the probability of outcomes is not known. Atik (2012) also defines risk as the probability of an undesirable outcome while uncertainty implies the unknown probability of outcomes.

So, although risk is often associated with negative outcomes, there are also some beneficial possibilities too. The definitions of risk are approximately the same, where some definitions also distinguish risk from uncertainty. The most important differences of the two terms are the known outcome and probability of a risk event, whereas for uncertainty the probability is unknown. Therefore, risk can be measured while uncertainty cannot be measured. Henceforth, the focus of the thesis will be on the definition of risk with negative outcomes. The possible opportunities of risks will not be handled and the term uncertainty will also not be further developed.

2.2 Classification of risk

There are several categories of the different types of risks companies face. In the literature many different classifications of business risks are defined. According to Ritchie and Marshall (1993) the distinction between risks inside the organization and risks in the organization's environment is the first important distinction to make before looking further into the different sources of risk. Several authors classified this distinction in systematic and unsystematic risks. The risks in the organization's environment can be further divided into different types of sources. A famous and often used classification is the one by Miller (1992). Another classification of risk sources for companies is made by Fatemi and Luft (2002). Furthermore, according to Eun et al. (2012) multinational corporations (MNCs) face additional risks since they are active in an international setting.

2.2.1 Systematic and unsystematic risk

Everett and Watson (1998) made a distinction between systematic and unsystematic risks. This distinction is a commonly used distinction in the literature about risks firms might face. According to Olibe et al. (2008) the total risk of a firm can be divided into two parts: systematic and unsystematic. Systematic risk is the risk associated with the economy as a whole and on the other hand unsystematic risk is firm- and industry-specific. Olibe et al. (2008) claim that major political and economic events are examples of events that pose systematic risk.

However, it seems that the classification of systematic and unsystematic risk is mainly used in relation to the volatility of stocks and portfolios. According to Ritchie and Marshall (1993) the distinction of risk into systematic and unsystematic risk is based upon the capital asset pricing model (CAPM), which is developed from portfolio theory. Ritchie and Marshall (1993) furthermore argue that systematic risk is an important value to calculate the expected return from a security. Hillier et al. (2011) also refer to the relation of systematic and unsystematic risk with securities. According to Hillier et al. (2011) systematic risk is the portion of a security's return variance that is claimed by market movements. Unsystematic risk is the portion of return that cannot be explained by market movements. So based on those definitions, systematic risk is important for investors to assess since it can influence their decisions about securities or portfolios. Everett and Watson (1998) argue furthermore that systematic risk is rewarded on average, but unsystematic risk is not rewarded because there are diversification strategies to limit these sources of risk. Investors can limit the effects of unsystematic risk by investing across several firms and industries. However, claimed by Everett and Watson (1998) the health of the economy and risks associated with it are generally non-diversifiable.

2.2.2 Classification by Miller (1992)

According to Miller (1992) the risks company faces can be classified into three categories: (1) economy based (general environment) risk, (2) industry based risk and (3) firm based risk. Economy based risk is the risk associated with the economy where the business is located, industry based risk is the risk associated with the industry where in the company is operating and firm based risk are risks that are unique for the company itself. Miller (1992) furthermore argues that the economy based risk includes five units of risks. These units are political risks, government policy risks, macroeconomic risks, social risks and natural risks. The industry risks include input market risks, product market risks and competitive risks and the firm based risks are operating risks, liability risks, R&D risks, credit risks and behavioral risks (Miller, 1992). An overview of the classification by Miller (1992) is shown in figure 3.

General Environmental	
Political:	terrorism, war, changes in government
Government policy:	fiscal and monetary policies, trade restrictions, regulations affecting the business sector, tax policy
Macroeconomic:	exchange rates, interest rates, inflation, terms of trade
Social:	social unrest, shift in social concerns
Natural:	variations in weather, natural disasters
Industry	
Input market:	quality of inputs, supply relative to industry demand
Product market:	consumer tastes, market demand, availability of substitutes and complements
Competition:	pricing and other forms of rivalry, new entrants, product and process innovations
Company	
Operations:	labour relations, availability of inputs, production variability and downtime
Liability:	product liability, emission of pollutants
R&D:	R&D activities, regulatory approval of new products
Credit:	problems with collectibles
Behavioural:	opportunistic behaviours by managers or employees

Figure 3. Classification of risk by Miller (2003)

2.2.3 Classification by Fatemi and Luft (2002)

The classification of risk by Miller (1992) is almost the same as the classification of Fatemi and Luft (2002), although the latter use different terms. Fatemi and Luft (2002) claim that sources of risk firms face are in general business risk, strategic risk and financial risk. They state that business risk, also defined as operating risk, is fundamental to the firm's operations. Strategic risk comprises macro factors that affect the firm. According to Fatemi and Luft (2002) the macro factors can either be political or economic and they can occur as domestic or international events. The Asian currency crisis and the dissolution of the Sovjet Union are examples of international events. Strategic risk factors have in common that they affect the firm's performance in the long-term. On the contrary, Fatemi and Luft (2002) argue that financial risk encompasses adverse changes over short time periods in interest rate, foreign currency values, commodity prices and equity prices. Unfavorable changes in these factors can have negative consequences for the value of the firm.

2.2.4 Country risk

So far there has not been made a distinction between the risk of doing business abroad or domestic. Firms incorporated in one country with production or sales operations in several other countries are called multinational corporations (Eun et al. 2012). According to Eun et al. (2012) these firms may encounter additional risks in their international setting. In the literature there are many definitions for dealing with the additional risks of doing business abroad and there is not a commonly used term for it. According to Bouchet et al. (2003) the two most frequent terms are country risk and political risk. Both terms are enumerated by Bouchet et al. (2003) as shown in figure 4.

Political risk	Country risk
Aliber (1973)	Citron and Nickelsburg (1987)
Aliber (1975)	Cosset *et al*. (1992)
Alon and Martin (1998)	Davis (1981)
Brewer (1981)	Desta (1985)
Cosset and Suret (1995)	Eaton *et al*. (1986)
Desta (1985)	Kennedy (1991)
Feils and Sabac (2000)	Marois (1990)
Fitzpatrick (1983)	Meldrum (1999)
Haendel *et al.* (1975)	Meldrum (2000)
Howell and Chaddick (1994)	Merril (1982)
Kennedy (1991)	Nagy (1978)
Kobrin (1978)	Rivoli and Brewer (1997)
Kobrin (1979)	Robinson (1981)
Marois and Behar (1981)	Roy and Roy (1994)
Robock (1971)	Wilson (1979)
Root (1968)	
Root (1972)	
Rummel and Heenan (1978)	
Simon (1982)	
Stevens (1997)	
Usher (1965)	

Figure 4. Political risk and country risk in the literature according to Bouchet et al. (2003)

According to Van Efferink et al. (2003) the term to use is country risk and the definition of it in its broadest sense covers all risks that are related to any conclusion of financial contracts with or in a foreign country. Van Efferink et al. (2003) argue, furthermore, that some definitions focus primarily on the political aspect, however according to their claim it is a part of the broader concept, country risk. So, following the claim of Van Efferink et al. (2003) the term political risk does not encompass the additional risks firms face in their international setting completely and therefore the term country risk should be used. Bekaert et al. (2016) also investigated political risk in an international business context and they confirm the claim of Van Efferink et al. (2002). According to Bekaert et al. (2016) it is important to know that political risk does not encompass natural disasters, macroeconomic or financial risk factors.

The definition of country risk proposed by Meldrum (2000) reflects the additional risks firms face by doing business in an international setting in a broad way:

'All business transactions involve some degree of risk. When business transactions occur across international borders, they carry additional risks not present in domestic transactions. These additional risks, called country risks, typically include risks arising from a variety of national differences in economic structures, policies, socio-political institutions, geography and currencies'

Conform the definition of Meldrum (2000) country risk encompasses various risk aspects of which political risk is one. Nearly the same country risk factors are labeled by Wang (2009) as he classified country risk into political, economic, financial and social factors. Kosmidou et al. (2008) also mention the many facets of country risk. According to them defining country risk should be on the broad context and the emphasis has to be on the multidimensional character of county risk. Hoti and McAleer (2004) argue as well that country risk can be prompted by different country-specific factors. In addition Kosmidou et al. (2008) recognize that there are several definitions of country risk and also various interested parties in the country risk of a specific country like banks, firms, international organizations or policymakers. Furthermore, several authors like Bouchet et al. (2003), Kennedy (1991), Goodman (1981) and Meldrum (1999, 2000) argue that country risk for multinational corporations should be defined differently than for banks and other financial institutions. According to Schroeder (2008) a basic principle of the difference is that financial institutions are related to the

risks of cross-border lending and investments in portfolios, while corporations are mainly concerned about nonmarket factors that can affect the profitability.

Argued by Eun et al. (2012), the most important country risk factors multinational corporations face are mainly the exposure to (1) foreign exchange risk that they would not encounter in domestic transactions and (2) political risks of the different countries where the firm is active. These country risk factors are almost the same as the factors claimed by Xuemei Hou (2013) as the most important ones for MNCs. According to Xuemei Hou (2013) the most significant risks in international business are (1) currency exchange rate risk, (2) political risk and (3) economic risk. Finally these are also the risk factors claimed by Hoti and McAleer (2004) as the major components of country risk. Although Hoti and McAleer (2004) mention the first factor as the financial risk factor.

So, even though there are different terms used in the literature it seems that country risk is the term to use for encountering the additional risk of doing business abroad in the broadest sense. Argued by various authors country risk includes a wide range of factors. However, it seems that the most relevant factors to assess can vary by the type of organization. In the literature the most important country risk factors for MNCs to assess are the political risk, economic risk and financial risk including foreign exchange risk.

2.2.4.1 Political risk

According to the classification of Miller (1992) there is a distinction between political risk and government policy risk. Miller (1992) claims that political risk refers to major changes in political regimes, examples of political risks are wars, revolutions, democratic changes in governments or other political turmoil. Government policy risk is associated with instability of government policies. This includes risks such as fiscal and monetary reforms, price controls, changes in the level of trade barriers, changes in government regulation or the threat of nationalization. However, in the literature political risk mainly captures both types of political risk as claimed in the distinction of Miller (1992).

According to Eun et al. (2012) political risk refers to the potential losses of the parent firm resulting from unfavorable developments in policy changes of the host country. Political risk can range from unexpected changes in tax laws to outright expropriation. These risks arise due to the fact that a sovereign country can change the 'rules of game' in their country and the affected multinational corporation might not be able to respond effectively. Bekaert et al. (2016) argue approximately the same about political risk. According to them political risk for a given country is the risk that the actions by the country's government or imperfections of the country's executive, judicial institutions or legislative adversely affect the value of an investment by the foreign firm in that country. Stephens (2016) furthermore defines political risk as:

'*The risk of a loss for a firm because of nonmarket factors, including action or inaction by a government authority, macroeconomic and social policies (fiscal, monetary, trade, investment, income and developmental), or events related to political instability (war, coups, insurrection, riots and terrorism).*'

Xuemei Hou (2013) confirms the definition of Stephens and states that political risk can be defined as the risk of losing money as a result of changes occurring in a country's government or regulatory environment. Acts of war, terrorism, trade barriers and military coups are all extreme examples of political risk in the definition by Xuemei Hou (2013).

According to Stephens (2016), stable territories have well-established institutions and representative political systems and therefore shifts in power do not have a substantive effect on the country's environment. On the other hand, the elections in Venezuela with Chavez and in Russia with Putin show how changes in individuals controlling governing institutions can affect the stability of a country. Therefore Stephens (2016) argues that risks for multinational corporations are much higher in countries that are led by personalities rather than countries where decisions are institutional.

Stephens (2016) argues that political ideologies and systems of government play a significant role in assessing the risk of a country. This is confirmed by Shanmugam (1990) and Bekaert et al. (2016), who both claim that accounting for political risk is an important challenge for multinational corporations by doing international business and it could seriously affect the profitability of international ventures. According to Stephens (2016) democracies are often associated with stable environments and autocracies or other non-democracies with instability.

However, the political risk environment of a country in reality is more complex. According to Bekaert et al. (2016) measuring the impact of political risk is one of the most vexing issues by doing international business. Bekaert et al. (2016) also mention that the available political risk ratings are mainly subjective assessments of experts and it is difficult to incorporate it into a quantitative valuation analysis. Eun et al. (2012) also argue that it is not easy to measure political risk. However, it is important for MNCs to measure the risk and a commonly way to do this is the subjective analysis of political risk by experts.

2.2.4.2 Foreign exchange risk

According to Eun et al. (2012) the exposure of firms to the risk of fluctuating exchange rates has raised due to the increased globalization. Melvin and Norrbin (2013) state that international business involves foreign exchange risk, because the value of transactions in different currencies are sensitive to changes in exchange rates. Eun et al. (2012) clarify that currency exchange risk is a financial risk posed by an exposure to unanticipated changes in the exchange rate between two currencies. The exchange rate between currencies fluctuates continual and it can therefore lead to unexpected gains or losses. Changes in the rates could affect a firm in different ways, for example the cash flows from contracts denominated in foreign currencies or the value of assets and liabilities. In total Eun et al. (2012) claim exchange rate changes could significantly affect the firm value. Furthermore, according to Joshi (2009) the impact of foreign exchange fluctuations also depends on the firm's competitors, customers and suppliers. Therefore careful attention should be paid to foreign exchange exposure. It is possible to manage the exposure to exchange rate changes, however according to Melvin and Norrbin (2013) the benefit of doing so is not always worth the effort. The foreign exchange risk can be distinguished into separate parts and according to Eun et al. (2012) it is conventional to divide foreign exchange rate risk into transaction exposure, translation exposure and economic exposure.

Transaction exposure

According to Melvin and Norrbin (2013) transaction exposure is exposure resulting from the uncertain domestic currency value of a foreign-currency denominated transaction at a future date. Furthermore, Eun et al. (2012) claim that transaction exposure derives from fixed-price contracting in a world where exchange rates are changing randomly. So, from those explanations it becomes clear that transaction risk is associated with difference in time between the settlement of contracts and the ultimate completion. According to Green (2016) the greater the deviation, the more time there is for currencies involved in the contract to fluctuate and so the more transaction exposure there is.

Translation exposure

Translation exposure is also known as accounting exposure. According to Eun et al. (2012) this exposure refers to the potential effect by changes in exchange rates on the firm's consolidated financial statements. Argued by Eun et al. (2012) consolidation implies the translation of subsidiaries' financial statements from local currencies to the home currency. Melvin and Norrbin (2013) confirm that translation exposure arises from differences in the financial statements. The same definition of translation exposure is given by Xuemei Hou (2013) as she states that translation risk refers to the revaluation of foreign assets held in a foreign currency. Due to the fact that foreign currency exchange rates vary over time the revaluation of assets can create an exchange loss or gain.

Economic exposure

According to Xuemei Hou (2013) the economic exposure, also called the operating exposure, is the risk of changing a company's market value due to unexpected exchange rate fluctuations. Miller (1998) confirms this definition as he claims that economic exposure is a measure of the reduction in cash flow and value that a business may experience as a result of a real adjustment in the foreign exchange rate. When the currency exchange rate rises or falls, the sale price can be affected by the change and that could affect profits. Furthermore, according to Miller (1998) economic exposure is a forward-looking concept considering future cash flows rather than historical accounting values.

Melvin and Norrbin (2013) argue that the economic exposure is the most important foreign exchange risk to tackle for firms. The purchasing power of long-run cash flows is the most important for the firm to focus on because these set the value of the firm.

2.2.4.3 Economic risk

The economic risk factor of country risk can be confused and mingled easily with the economic exposure of the foreign exchange risk factor. Miller (1992) argued that the macroeconomic factor includes a broad set of variables like inflation and GDP but also foreign exchange rates. So, according to this claim the foreign exchange risk is part of the economic risk factor. However, in the literature there is made a distinction in economic risk and foreign exchange mostly. The latter includes economic exposure. As mentioned before, the economic exposure of the foreign exchange risk is caused by fluctuations in exchange rates. Whereas, according to Xuemei Hou (2013) the economic risk factor is associated with a country's financial condition and ability to repay its debts. Indicators to measure the economic risk in a foreign country are for example GDP, inflation, purchasing power, unemployment. Wang (2009) also appoints the distinction between economic risk and foreign exchange and mentions the same indicators for the economic risk factor. According to Meldrum (2000) the economic risk refers to a significant change in the economic structure or growth rate that causes a potential loss. In addition Meldrum (2000) claims that economic risk and political risk can overlap one another.

2.3 Country risk ratings

A detailed assessment of country risk and the factors it includes is crucial for evaluating the stability of a specific country in order to do business abroad. According to Eun et al. (2012) MNCs can use in-house experts to do such an assessment. However, they claim that MNCs often use outside experts who provide professional assessments and offer in-depth analyses of countries. De Mortanges and Allers (1996) also mention that it is possible for companies to employ services and publications published by external consultants of rating agencies as an alternative to assess the risk within the company. According to Van Efferink et al. (2003) and Hoti (2003) attention for measurement of

country risk has increased. As a consequent the number of country risk assessments composed by several commercial rating agencies has increased substantially in recent years.

In the literature there are many risk rating agencies mentioned that measure country risk, using different methods like qualitative and quantitative research and presenting the results in different formats. According to the assessment of the major country risk rating agencies by Hoti and McAleer (2004) the different agencies mainly measure four kinds of factors to assess the country risk. As shown in figure 5 these components are economic, financial, political and composite.

Variables	Frequency
Economic	15
Financial	16
Political	10
Composite	17
Number of studies	17

Figure 5. Risk components variables used in country risk ratings by Hoti and McAleer (2004)

2.3.1 Rating agencies

Hoti and McAleer (2004) mention the following risk rating agencies as the leading commercial analysts of country risk:

- Institutional Investor
- Euromoney
- Moody's
- Standard and Poor's (S&P)
- International Country Risk Guide (ICRG)
- Economist Intelligence Unit (EIU)

The risk rating agencies mentioned as the leading agencies to assess country risk by Hoti and McAleer (2004) are also appointed by Van Efferink et al. (2003), Erb et al. (1996), Joshi (2009), Frei and Ruloff (1987) and Krayenbuehl (2001). However according to De mortanges and Allers (1996), Erb et al. (1996), Joshi (2009), Frei and Ruloff (1987), Krayenbuehl (2001) and Brown et al. (2015) the Business Environment Risk Intelligence index (BERI) should also be mentioned as one of the major country risk rating agencies. Furthermore, Krayenbuehl (2001) made an important distinction between services providing country risk information and assessments and rating agencies assessing the country's credit risk. Bouchet et al. (2003) also made this distinction and explain that country credit rating methods aim at assessing the ability and willingness of a given country to meet its financial obligations. According to Krayenbuehl (2001) and Bouchet et al. (2003) Moody's and Standard and Poor's (S&P) are rating agencies classified as the country credit ratings.

As shown in figure 6, there are several country risk rating agencies that publish ratings and publications of the risk of many countries which companies can consult. According to Van Efferink et al. (2003) and Erb et al. (1996) one may conclude that the ratings between the various agencies do not differ significantly. Although, Erb et al. (1996) argue in the same study that two of the foremost agencies are Institutional Investor and the ICRG. However, Joshi (2009) claims that the most significant and used ratings are BERI, Economist Intelligence Unit and ICRG.

So it seems that there are different opinions about appointing the foremost rating agencies. However, both authors claim the ICRG as an important country risk rating. In addition to the literature, the ICRG rating has been used in several studies like Asiedu (2006), Busse and Hefeker (2007), Hayakawa et al. (2013), Osabutey and Okoro (2015) and Howell (2007) to measure the risk of a country. According to Hayakawa et al. (2013) the ICRG rating is widely used by MNCs, banks, institutional investors, importers, exporters and foreign exchange traders. Furthermore, according to Hoti (2003) and Guha-Khasnobis and Mavrotas (2008), the ICRG risk ratings have been cited by experts at the World Bank, United Nations, IMF and other institutions as a standard. Lastly, Hoti (2003) claims that the rating system of the ICRG is the only risk rating agency providing consistent monthly data over an extended period of time for a large number of countries.

Source	Description	Structure
Institutional Investor	Risk information provided by leading international banks. The sample for the study is updated every six months, ranging from 75 to 100 banks, analyzing 136 countries.	Ratings are based on information provided by senior economists and sovereign risk analysts at global banks. Banks are not permitted to rate their home country. The individual responses are weighted.
Euromoney	Panel of leading economists and political analysts evaluing country performance. Yearly ranking for 185 countries.	Establishes an overall score for countries by using nine weighted categories, quantitative as wel as qualitative. The two major categories are the economic performance and the political risk.
International Country Risk Guide (ICRG)	ICRG provides country reports for 100 countries and risk ratings for 140 countries on a monthly base. The goal of the ICRG is to provide information for MNCs, banks, equity and currency traders.	The ICRG analysis is based on 22 weighted variables grouped into financial, economic and political categories. Political variables are assessed on expert perceptions and the financial and economic categories are based on hard data.
Business Environment Risk Intelligence (BERI)	Three times a year BERI produces four types of ratings, covering 50 countries. Including a political index and a composite score. Each of them assessing the present situation as wel as providing a forecast.	The ratings are based on economic, political and financial factors. It is built on the opinion and scores provided by a panel of 100 experts with international experience. Those opinions are processed through a Delphi method.
Economist Intelligence Unit (EIU)	The EIU provides country and sector risk analysis and forecasts for 117 countries. It seeks to quantify risks to business profitability and forecast the next two years.	The EIU method is based on expert's answers to a series of 77 quantitative and qualitative questions classified in 10 dimensions. The two major categories of the weighted dimensions are the economic and political categories.

Figure 6. Overview of the leading commercial analysts of country risk (Bouchet et al. 2003; Brown et al. 2015; Van Efferink et al. 2003)

2.3.2 International Country Risk Guide (ICRG)

The International Country Risk Guide (ICRG) rating comprises 22 variables in three subcategories of risk: political, economic and financial. For each of the subcategories a separate index is created. The political risk index is based on 100 points, financial risk and economic risk both on 50 points. Political risk comprises 12 components (and 15 subcomponents) and financial and economic risk each consists of five components (Hoti and McAleer, 2004; PRS Group, 2012).

The ICRG experts collect political information and economic and financial data. They convert these into risk points for each individual risk component (PRS Group, 2012). According to Brown et al. (2015) the political risk variables are assessed based on subjective analysis of the available information by the experts, while the economic and financial risk categories are assessed based on objective hard data.

The aim of the political risk rating by the ICRG is to assess the political stability of the countries covered. In order to do so, the ICRG assesses 12 variables with different weights, as shown in figure 7**.** The first five components consist of several subcomponents (PRS Group, 2012).

POLITICAL RISK COMPONENTS		
Sequence	**Component**	**Points** ***(max.)***
* A	Government Stability	12
* B	Socioeconomic Conditions	12
* C	Investment Profile	12
* D	Internal Conflict	12
* E	External Conflict	12
F	Corruption	6
G	Military in Politics	6
H	Religious Tensions	6
I	Law and Order	6
J	Ethnic Tensions	6
K	Democratic Accountability	6
L	Bureaucracy Quality	4
Total		100

Figure 7. Political risk components of the ICRG (PRS Group, 2012)

The economic risk rating aims to assess the country's economic strengths and weaknesses. According to Hoti and McAleer (2004) when a country's strengths outweigh the weaknesses it generally presents low economic risk. The five components to assess the country's economic risk are:

- GDP per head
- Real GDP growth
- Annual inflation rate
- Budget balance as a percentage of GDP
- Current account as a percentage of GDP

Lastly, the financial risk category measures a country's ability to finance its commercial, official and trade debt obligations. The five components including this category are:

- Exchange rate stability
- Foreign debt as a percentage of GDP
- Foreign debt service as a percentage of export in goods and services
- Current account as a percentage of export in goods and services
- Net liquidity as months of import cover

3. Frameworks

In order to assess the risk exposure of Company X by doing business in Kazakhstan and Turkey and measure the impact of the exposure on the firm's performance it is useful to consult the risk management frameworks mentioned in the literature. According to Zhao et al. (2015a) a framework serves as a guide, an outline, to facilitate an approach toward achieving a specific goal. The Corporate Governance Council of Singapore (2012) furthermore argues that the design and pace of implementation of a risk management framework varies greatly among firms. Zhao et al. (2015a) make a distinction between (1) a silo-based risk management and (2) an integrated enterprise-wide approach for risk management.

The silo-based risk management is the traditional way of managing risk whereby the risk of the organization is segmented and conducted into separate departments. Each department deals with its own risks. There is no person or group in the organization that has a grasp of the entire exposure of the company (Shenkir and Walker, 2007). Argued by Utter (2006), with the silo-based risk management each department within the organization has the best expertise to address the risks it is responsible for. However, according to Cendrowski and Mair (2009), Chapman (2006) and Collier (2009) silo-based risk management fails to take into account interactions and the interdependence between risks. Furthermore, Hoyt and Liebenberg (2015) and Meulbroek (2002) argue that silo-based risk management could create duplication of risk management expenditure and inefficient coordination between different departments. The risk management framework of Crouhy et al. (2006) is a common example of a silo-based approach.

According to O'Donnell (2005) a recent trend has been the development of an integrated enterprise-wide approach to assess the business risks that can impact the company. Risk management within an organization cannot be segmented and managed independently, but it should be integrated into the entire business process and exist within each level of the organization claimed by Hillson (1998) and Jutte (2010). In addition, according to Lam (2003) organizations need a holistic and integrated approach to manage the risks in their volatile environment. It is the holistic approach to manage all the risks of the organization that distinguishes the integrated enterprise-wide approach from the silo-based risk management (Pagach and Warr, 2011). The Enterprise Risk Management framework and the ISO 31000:2009 framework are the most famous frameworks based on the integrated enterprise-wide approach.

3.1 Enterprise Risk Management (COSO)

Responding to the expanding emphasis on risk management by firms, the Committee of Sponsoring Organization (COSO) has developed the Enterprise Risk Management framework that sets key risk management principles and concepts and provides direction and guidance (O'Donnell, 2005). The ERM framework published by the COSO is the most widely invoked risk management framework in the world according to Hayne and Free (2014). Hoyt and Liebenberg (2015) confirm the extensive interest in enterprise risk management and they argue that increasing numbers of organizations have implemented the ERM framework.

3.1.1 Definition of COSO ERM framework

The ERM framework of COSO (2004) is defined as:

'A process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the

entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.'

Based on the definition of ERM by the COSO (2004), O'Donnell (2005), Mikes (2009) and Pagach and Warr (2011) agree about the ERM framework as an ongoing, enterprise-wide process to manage risks in a holistic way across the entire organization. Hoyt and Liebenberg (2015) furthermore argue that unlike traditional risk management, in which individual risk categories are assessed and managed separately, the ERM framework permits companies to manage a wide range of risks in an integrated way. According to Bromiley et al. (2015) this way of integrated management by the ERM framework captures all the risks the company faces and it requires alignment of risk management with corporate governance and strategy.

3.1.2 Dimensions of the framework

The ERM framework of COSO defines essential components, suggests a common language and provides clear direction and guidance for enterprise risk management (Bediako, 2014). The framework is a three-dimensional matrix as shown in figure 8. The matrix intends to represent the links between the organizational objectives and the components to perform in order to achieve the objectives, across all levels of the organization. Within the ERM framework organizational objectives can be viewed in the context of four categories: strategic, operations, reporting and compliance. The ERM framework considers activities at all levels of the organization which could be enterprise-level, division or subsidiary or a business unit process. Furthermore, the ERM framework of COSO (2004) involves eight interrelated steps which an organization must perform across the entire organization.

First of all the organization should look at its internal environment. It establishes the philosophy of the organization regarding risk management and the entity's risk culture. Then the organization should set objectives that supports the organization's overall mission and aligns its risk appetite. This will give a view of how much risk the organization is willing to accept. Next the organization has to identify internal and external events that might affect the achievement of the established objectives (Bediako, 2014). According to the COSO guidance (2004) events that have a negative impact represent risks. Once the risks are identified, the likelihood and impact of the risks have to be assessed. Assessing the risks allows the organization to understand the extent to which the risks might impact the objectives and forms a basis for determining how to manage them. Therefore the next step of the ERM steps is to identify and evaluate appropriate responses to the risks and to control the deployed responses. Policies and procedures are control activities that should ensure that responses are carried out effectively. Furthermore, information and communication systems have to identify, capture and communicate information in a form and timeframe that enables people to carry out their responsibilities. Lastly, the effectiveness of the ERM components should be monitored and modified if necessary (Weller, 2015).

3.1.3 ERM framework in practice

So, the matrix shows that risk management with the ERM framework is not one of the many functions in a company, but it is spread across the entire organization. However, according to Zhao et al. (2015a) implementing the ERM framework is not easy. A survey conducted by CFO Research Services (2008) discovered that 70% of their respondents mentioned ERM as the most challenging issue in the next 12 months and a survey demonstrated by Beasley et al. (2015) shows that only 25% of the large organizations claim to have an ERM framework in place. According to Zhao et al. (2015b) many factors hindered the implementation of an ERM framework in various industries. Due to these

hindrances, organizations tend to find it difficult to implement a framework. Zhao et al. (2015b) identified 20 critical hindrances to implement ERM in the organization from 27 previous studies. The three most critical hindrances identified were: insufficient resources (e.g. time, money and people), lack of formalized ERM process and lack of internal knowledge skills and expertise.

Figure 8. COSO Enterprise Risk management framework (2004)

3.2 ISO 31000:2009 – Principles and Guidelines

The International Organization for Standardization (ISO) has designed a common risk management framework in ISO 31000:2009 – Principles and Guidelines (ISO, 2009). According to the ISO (2009), risks can affect organizations in different ways such as the economic performance, reputation of the organizations as well as societal, safety and environmental outcomes. So, argued by the ISO (2009), managing risks can effectively help organizations to perform well in an environment full of risk exposure. Therefore the ISO 31000:2009 – principles and guidelines provides a framework and a process for managing risk.

According to Shortreed (2010) the framework by ISO incporates the best practices from the COSO ERM framework as well as other leading risk management standards. Hence, Shortreed (2010) claims that the ISO framework is the best practice for risk management frameworks. The ISO 31000:2009 risk management framework, as shown in figure 9, consists of a framework and a process (Gjerdrum and Peter, 2011).

3.2.1 The framework

The framework assures that the process is supported across the organization and that it is effective. It manages the overall process and its full integration in the organization. That means that risk management will become an active component in governance, strategy and planning of the organization. Although, it is intended to be adapted to the particular needs of each individual organization (Gjerdrum and Peter, 2011). The ISO 31000:2009 framework includes the components mandate and commitment, design of framework for managing risk, implementing risk management, monitoring and reviewing and continual improvement of the framework (zhao et al. 2015a). According to Purdy (2010) the elements ‘communication and consultation’ and ‘monitoring and review’ are the two elements of the ISO 31000:2009 risk management framework that can be considered as continually acting.

3.2.2 The risk management process

The process for managing risk focuses on individual or groups of risks. The core of the risk management process incorporates the five steps of a traditional risk management process, which are identify the risks, analyze the risks, analyze risk treatment options, implement risk responses and monitor the results. However, in addition to the core steps of the process, the ISO model includes the elements of 'establishing the context' and continuous 'communication and consultation' and 'monitoring and review'. Establishing the context should be done detailed in order to set the scope and risk criteria for the process. Communication and consultation as well as monitoring and review should happen throughout the process and has to occur continually during the risk management process. The process of risk management cannot succeed if it does not consult with stakeholders and monitoring and review is also a critical element as it assures that controls are effective and risks will be appropriately addressed (Gjerdrum and Peter, 2011).

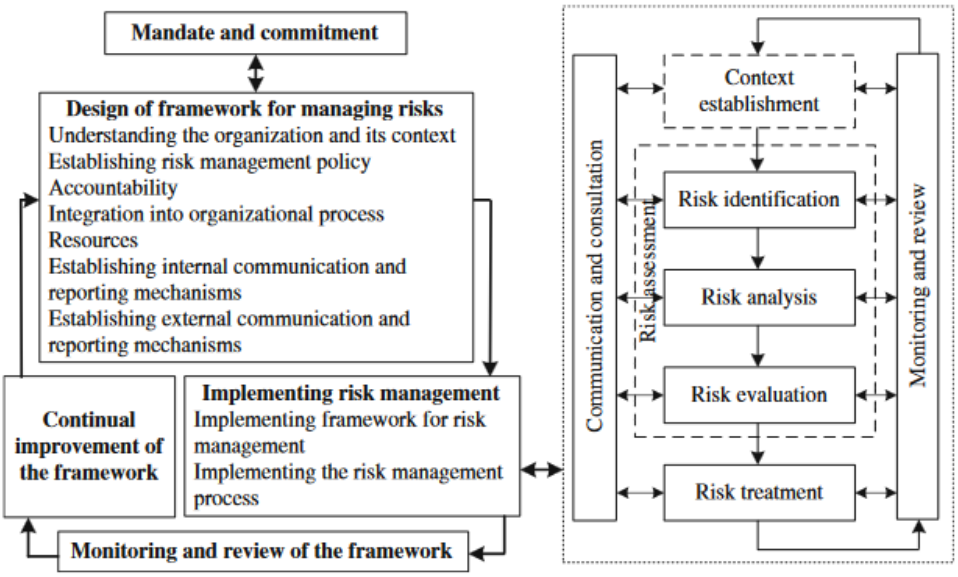


Figure 9. ISO 31000:2009 – Principles and Guidelines (ISO, 2009)

According to Zhao et al. (2015a) the underlying concept of the ISO framework is a quality management approach based on the plan-do-check-act (PDCA) paradigm by Deming (1986). The PDCA indicates that a framework is designed, implemented, monitored and that the steps are continuously improved.

Any type of organization can use the ISO risk management framework, regardless its size, activity or sector (ISO, 2009). Shortreed (2010) also mentions the flexibility of the framework as he states that it can be applied to the whole organization, part of the organization, particular types of risk and even to a specific project. However, Shortreed (2010) recognizes that the management of risk is the most effective if it is conducted in a cosistent way throughout the organization. According to Shortreed (2010), this is also the overarching concept of the ISO framework. Risk management in an organization should be fully integrated into the management and direction of the organization. Since the publication of the ISO 31000 in 2009, only a few critic academic reviews of the framework have been published. According to Everett (2011) the ISO 31000:2009 framework is not been widely adopted worldwide, although it has gained popularity in Australia. This could be the reason for the scarce academic reviews of the framework. However, Leitch (2010) is exceedingly negative about the common risk management framework designed by ISO 31000:2009. Leitch (2010) argues that the

framework is ineluctable to fail because it is unclear, it leads to illogical decisions, it is impossible to comply with and it is not mathematically based.

3.3 Risk management process of Crouhy et al. (2006)

The risk management process developed by Crouhy et al. (2006) is a straightforward framework to assess the risk exposure of an organization. According to Crouhy et al. (2006) risk management is often a formal discipline and it is a simple sequence of activities. Figure 10 shows that the risk management process of Crouhy et al. (2006) consists of identifying risks, measuring and appreciating its impact and taking action on it. Although Crouhy et al. (2006) claim that the developed risk management framework is a simple sequence of activities, they also recognize that in practice is does not always run smoothly. Some steps can be more challenging than others while also the importance of the different steps can differ.

Figure 10. Risk Management Process of Crouhy et al. (2006)

According to Crouhy et al. (2006) a corporation should not engage in risk management without deciding clearly on its objectives in terms of risk and return. Their developed framework is more useful to assess the risk exposure of some specific determined types of risk rather than to manage risks in a holistic way across the entire organization. Therefore, according to Crouhy et al. (2006) the firm has to determine the sources of risk it wants to manage first.

After the objectives have been set and the general nature of the risks to be managed has been decided it is essential to measure the risks and appreciate the impact, which is mentioned by Crouhy et al. (2006) as mapping the relevant risks. Risk mapping is stated by Van Well-Stam et al. (2010) as a very useful method to prioritize different risks. According to Scandizzo (2005), the most common technique for risk mapping is the mapping on a probability/severity chart. The overall goal of mapping the risks is to provide risk information to the organization's policymakers (The Open University, 2016). Crouhy et al. (2006) furthermore argue that while mapping a firm's risks it is important to recognize the difference between risks that can be insured against, risks that can be hedged and risks that are not insurable and not hedgeable. This distinction is important because the next step is to find relevant instruments to perform a risk management strategy. According to Crouhy et al. (2006) there are four general risk management strategies in order to form a strategy: avoid, transfer, mitigate and keep. The last step in the framework of Crouhy et al. (2006) is to evaluate the performance of the risk management process. Argued by Crouhy et al. (2006) this should be done periodically.

3.4 Synthesis

The three risk management frameworks developed by COSO (2004), ISO (2009) and Crouhy et al. (2006) all have the purpose to guide organizations through the process of identifying potential events that could affect the organization and managing those risks in order to achieve the entity's objectives. However, the way it should be implemented and the manner of proceeding the risk management process differ between the three frameworks.

The ERM framework of COSO is the most extensive one. It enables organizations to manage a wide range of risks in an integrated way rather than assess and manage individual risk categories separately. By implementing the ERM framework, the process of risk management is aligned with the organizations direction, management and personnel and it captures all the risks the organization faces. So, COSO's ERM framework emphasizes the importance to assess and oversee risks in a holistic manner and therefore an effective implementation of the ERM framework provides reasonable assurance to achieve the organization's objectives. However, implementing the framework is not easy as the three most critical hindrances identified are insufficient resources (e.g. time, money and people), lack of formalized ERM process and lack of internal knowledge skills and expertise. Furthermore, it takes a lot of effort to implement the framework because of the holistic approach and many people have to be involved in the process. In addition, assessing individual risk categories separately with the ERM framework is very difficult, so COSO's framework is not flexible at all.

On the contrary the framework developed by ISO (2009) is very flexible. Although this framework is also an extensive one, it is not necessarily aligned with the direction of the organization and it is not required to implement the framework across the entire organization. It is possible to apply the framework for a specific purpose, for instance to a part of the organization or to particular types of risk. However, the overarching idea of the ISO framework is still to integrate it throughout the organization.

In contrast to the integrated enterprise-wide frameworks of COSO and ISO, the risk management framework of Crouhy et al. (2006) is a simple sequence of activities based on a silo-based risk management. The holistic approach of the first two frameworks captures all the types of risks organizations face, including domains like health and safety, environment, quality, legal, politics and finance. However the framework of Crouhy et al. (2006) is more useful to assess the exposure of some specific selected types of risk. Although the steps of the risk management framework of Crouhy et al. (2006) are also components of the COSO and ISO framework, it is not the underlying idea to align it with the entire organization.

So, although the frameworks of COSO and ISO are advantageous frameworks to minimize the risk exposure of the organization and achieve the entity's objectives, they are extensive and difficult to implement. Implementation of the frameworks requires collaboration of the entire organization and it involves many people. Furthermore, monitoring and reviewing is an important component of the ISO framework but it goes beyond the purpose of this research. Therefore these frameworks are not feasible to use during the research to the risk exposure of Company X in Kazakhstan and Turkey.

The framework of Crouhy et al. (2006) is a simplified one compared to the COSO and ISO frameworks. It makes it possible to assess the risk exposure of some specifically determined risk types without aligning it within the entire organization. Furthermore, the steps of the framework provide useful guidelines to assess the risk exposure of some specific risk types. Therefore the

framework of Crouhy et al. (2006) is an appropriate framework to use in order to assess the risk exposure of Company X in Kazakhstan and Turkey. However, the last step of the framework, evaluating the performance, will not be part of the research because it is not the purpose of this study and it furthermore crosses the available time period.

4. Research method

The goal of this research is to assess the foreign risk exposure Company X faces in the countries Kazakhstan and Turkey. This chapter will discuss the several steps to perform in order to achieve the goal of the research and also the research method to use will be discussed.

In order to investigate the risk exposure of Company X in Kazakhstan and Turkey, the first step will be to identify the risks within the three classified categories, this step will be discussed in section 4.2. After the risks are identified, they will be measured based on the probability and impact. The step of measuring the risks will be discussed in 4.3. Thereafter, in 4.4, a strategy to develop in order to respond to the risks will be discussed. However, the emphasis is on the first two steps which are risk identifying and measuring. In order to investigate the risk for Company X by doing business in Kazakhstan and Turkey and to perform the steps mentioned, a case study will be conducted. Conducting a case study will serve the goal of this research best. Several research types to perform a case study are available and the way of collecting data can vary. These characteristics of a case study research will be discussed in section 4.1.

4.1 Case study research

To assess the risk exposure Company X faces by doing business in Kazakhstan and Turkey an exploratory case study will be conducted. By performing a case study research it is possible to gain particular understanding and insight into the topic of research, which is according to Farquhar (2012) usually a contemporary phenomenon. Farquhar (2012) argues that a case study research allows the researcher to look at a complex phenomenon in the context. For business research that means collecting evidence of the phenomenon where it is taking place, for example in a company or in a country. The definition of a case study according to Yin (2003) claims the same as he states that a case study research means conducting an empirical in-depth investigation of a contemporary phenomenon within its natural context using multiple sources of evidence.

4.1.1 Steps of case study research

To perform a case study research in general six steps should be followed. According to Soy (1997), Alnaim (2015) and Yin (2003) the following steps should be realized in order to achieve the goal of the case study research:

- Determine and define the research question
- Select the cases and determine the data gathering and analysis techniques
- Prepare the data collection
- Collect the data
- Analyze the data
- Prepare the report

According to Soy (1997) the first step is to establish a research focus to which the researcher will study a complex phenomenon or object. Alnaim (2015) argues that this first step is an essential step. Thereafter the researcher must select the case to study. According to Soy (1997) selecting a multiple or single case is a key element and it could be a unique or a typical case. The researcher should furthermore already determine what data to use and which analysis techniques to use in order to answer the research question. Preparing the data collection is an important step because case study research generates a large amount of data and therefore a systematic organization of the data is

necessary to prevent the researcher from losing sight of the goal of the research (Soy, 1997). According to Alnaim (2015) preparing the data collection includes a protocol which involves recorders, instruments and general rules. Collecting the data in case studies can be performed in many ways. Argued by Alnaim (2015) there are many types of sources suitable to use in a case study research. However, it is recommended to use several sources of data. Furthermore data can be qualitative as well as quantitative. After the data is collected it should be analyzed. Although, according to Alnaim (2015) analyzing the data can already start during the stage of collecting it. Analyzing the data in a case study implies examining raw data including different interpretations and viewpoints (Soy, 1997). The last step to perform in a case study research is to report the data. Argued by Soy (1997) the case study report should transform a complex issue into a report that can be easily understood, allowing the reader to examine the study. Alnaim (2015) furthermore argues that case studies are attractive research reports to read.

4.1.2 Advantages of case study research

According to Farquhar (2012) case studies are empirical investigations, they are based on experience and knowledge. Yin (2009) mentions that it is the essential tactic and a characteristic of case study research to use different sources of data. Those data sources can include both primary and secondary sources. According to Farquhar (2012) examples of primary data are data from interviews or surveys and secondary data are internal data or industry/country reports. It is the unique strength of a case study to deal with a full variety of evidence, which goes according to Yin (2009) beyond what might be available in a conventional historical study. Furthermore, by using several sources of data the research findings are strengthened as the evidence is triangulated. Farquhar (2012) argues that triangulation is an important concept of case study research because an investigation of the phenomenon from different perspectives provides robust foundations for the findings and it supports arguments for its contribution to knowledge. Furthermore conducting a case study research gives the researcher flexibility so that the research can be adapted to changes, argued by Farquhar (2012).

4.1.3 Disadvantages of case study research

There are also limitations of conducting case study research. According to Farquhar (2012) by studying a small number of cases the researcher will not be able to make statements about how the research can be extended to other situations like in survey research. The results of a case study are not generalizable. According to Hodkinson and Hodkinson (2001) another limitation of conducting a case study is the abundance of information and data which makes easy analysis difficult. Besides, the data to collect in order to perform a case study is a time-consuming event and it is even more time-consuming to analyze it. Hodkinson and Hodkinson (2001) also argue that it is often a problem to represent accessible and clearly pictures of the complexity of the case studies investigated.

4.1.4 Types of case study research

Three types of case study research designs classified by Yin (2003) are exploratory, explanatory and descriptive. However, according to Hancock and Algozzine (2006) a case study is generally an exploratory research. Hancock and Algozzine (2006) furthermore argue that with exploratory research the researcher rather identifies themes or events than proves relationships or test hypotheses. An exploratory research is conducted for a problem that has not been studied clearly yet and it mostly aim to find answers on the questions ‘What?’ or ‘Who?’ (Oukes 2017; Yin 2009).

4.1.5 Data collection in case study research

Gathering the data in case studies can be done by a qualitative as well as a quantitative method. According to Gillham (2000) qualitative methods are essentially descriptive and inferential in character and they are primary in case study research. Van Aken et al. (2012) furthermore claim that qualitative methods are methods that are oriented at the discovery of qualities of things like properties of objects, situations, phenomena and events. In addition, according to Van Aken et al. (2012) some authors define qualitative methods in a more specified manner where it is claimed that a qualitative study consist of textual data. Miles and Huberman (1994) also define qualitative data in that way. According to them qualitative data is usually in the form of words, rather than numbers. It is a source of well-grounded, rich descriptions and explanations of processes in identifiable local contexts (Miles and Huberman, 1994). On the opposite quantitative methods are oriented at counting numbers or amounts of the qualities (Van Aken et al, 2012). Gillham (2000) furthermore argues that providing quantitative data in case study research is possible if it is not too complex and it can add value to the overall picture.

4.1.6 Synthesize

To synthesize, in order to investigate the impact of the foreign risk exposure by doing business in Kazakhstan and Turkey on the firm performance of Company X the design of this research will be a case study. Adopting a case study research for this topic is desirable because the case study method is particularly suitable for (1) in-depth investigations where the researcher is generating intensive insight, (2) flexibility so that the researcher can adapt the research to changes, (3) studying the research question in context, (4) investigating a complex research problem.

Case study research has also limitations. According to Farquhar (2012) the researcher will not be able to generalize the results to other companies or situations. This will also be the case for this study, because the focus will be on the individual case of Company X and therefore it is unlikely that the results will be generalizable. Although some of the risk exposure identified by doing business in Kazakhstan and Turkey might also apply to other companies that are active in those countries. However, the limitation can be refute by the fact that the researcher will gain an awareness of how the in-depth understanding can contribute to knowledge in business (Farquhar, 2012). Furthermore, a discussed disadvantage of case study research is the time-consuming event of collecting and analyzing the data. Therefore it is important to determine specifically the frame to study.

The case study will be an exploratory research because the purpose of the study is to identify and investigate risk factors in Kazakhstan and Turkey and it has not been studied yet. Conclusively both methods qualitative and quantitative will be used for gathering data. Due to the different natures of the risks to identify (political, economic and financial) both methods are required. Qualitative data will be investigated to identify the political risks and partly the economic risks. On the other hand quantitative data will be used to identify currency exchange risks and also partly economic risks. However finally all the data collected of the three risks factors have to be translated into quantitative numbers in order to create a probability/impact matrix and to assess the impact of the risks on the firm performance.

4.2 Identify risks

The first step of the framework by Crouhy et al. (2006) is to identify the risks. In this case of Company X the political, economic and financial risk categories for Kazakhstan and Turkey will be investigated.

According to Eun et al. (2012), Xuemei Hou (2013) and Hoti and McAleer (2004) the most significant risk factors MNCs face by doing business abroad are mainly political risk (1), economic risk (2) and financial risk (3). Hoti and McAleer (2004) furthermore argue that these are also the factors assessed by the major country risk rating agencies. Besides the evidence from the literature, Company X has already experienced such risk factors since their presence in Kazakhstan and Turkey. Therefore it is expected that the political, economic and financial (currency exchange rate) risk factors of Kazakhstan and Turkey are the most significant factors to impact Company X. The purpose is to obtain a list with risks that could potentially impact the firm performance. In order to identify the risks within the three categories, the classification of the risk categories defined by Eun et al. (2012), Xuemei Hou (2013) and Hoti and McAleer (2004) will be utilized and in addition the structure of the International Country Risk Guide will be used.

Furthermore, there are different techniques which can be applied to identify the risks. The most common techniques mentioned in the literature are: brainstorming, interviews, questionnaires, Delphi technique, documentation reviews, desk research and checklists (Cooper et al. 2005; Smith et al. 2006; Lester, 2007; PMI, 2000**;** Khadem et al. 2017). In this study, documentation reviews and interviews will be conducted in order to identify the risks. In this way both primary and secondary sources are employed. According to the case study of Tyrrall et al. (2007) the use of different data sources in a case study enables triangulation which also allows competing interpretations of the data.

The documentation review will be performed at first. Secondary documentary sources, including the annual reports of Company X, Listing Prospectus of Company X, official country reports from ICRG and the World Bank and additional information from the Dutch, Kazakh and Turkish government will be used to identify potential risks. The review of these documentations is expected to provide useful information about different risks and it functions furthermore as a benchmark to conduct the interviews.

Cooper et al. (2005) argue that relevant data and other documentations must be used where appropriate, however expert judgement cannot be avoided. In addition, Hair et al. (2011) argue that semi-structured interviews are useful to identify risks. Therefore, the second technique to identify the risks in the case of Company X for Kazakhstan and Turkey is to conduct interviews. According to Bryman and Bell (2011) there is a distinction between qualitative interview and quantitative interview. Bryman and Bell (2011) argue that both types differ in many ways. Qualitative interviews tend to be much less structured and there is much greater interest in the interviewee's point of view. In qualitative interviewing rambling is often encouraged because it gives insight into what important and relevant points of the interviewee are. Bryman and Bell (2011) furthermore argue that interviewers can depart from any schedule or guide in qualitative interviewing and that interviewees can be interviewed on several occasions. So the most important characteristic of qualitative interviewing is that the researcher tends to be flexible in conducting the interview in order to gain rich, detailed answers.

The two major types of qualitative interviewing, according to Bryman and Bell (2011) are unstructured interview and semi-structured interview. With the unstructured interview the researcher uses a brief set of prompts to deal with a certain range of topics. The interviewer could draw up a single question and the interviewee is allowed to respond freely. However, with a semi-

structured interview the researcher has a list of questions on a specific topic to be covered. Although, there is still flexibility as the questions do not have to follow exactly the schedule and new questions that are not included in the guideline may be asked based on the answers of the interviewee (Bryman and Bell, 2011).

In order to identify the risks for Company X, the managers / directors responsible for the performance of the subsidiaries in Kazakhstan and Turkey will be interviewed. These managers are interesting to interview in order to identify risks factors because they can provide useful data based on their experience and on the specific information they have. The interviews will be semi-structured, so the questions to be asked will be drawn up beforehand, based on the documentation review among others the ICRG structure. According to Gillham (2000) semi-structured interviewing is the most important form of interviewing in case study research, it can be the richest single source of data.

4.3 Measuring risks

After the risks present by doing business in Kazakhstan and Turkey within the three set categories have been identified, the level of exposure has to be measured. Measuring the exposure of the identified risks makes it possible to understand the extent to which the present risks might impact the firm's performance and to determine how the risks should be managed. According to Hillson and Hulett (2004) assessing the significance of the identified risk factors requires addressing two dimensions: (1) probability and (2) impact. The importance of addressing these two dimensions is furthermore confirmed by several other authors (Ramos and Veiga, 2011; Smith, 2009; Wienclaw, 2016; Loghry and Veach, 2009). Probability addresses the likelihood of the risk to occur and impact addresses the extent to what the effect would be if the risk materialized. To assess the two dimensions for each of the identified risk, Cooper et al. (2005) argue that there are two categories of methods to use: qualitative and quantitative methods.

4.3.1 Qualitative method

According to Al Khattab et al. (2015) the qualitative method is a simplified process to qualify the risks which are worth to manage. The process is mainly intuitive and can be accomplished in an abbreviated fashion. In addition, Khadem et al. (2017) claim that qualitative risk analysis generally involves assessing a situation by instinct. According to Winch (2002) the qualitative method is the most applicable when the risks can be measured based on descriptive scales and they are used to describe the probability and impact of a risk. Cooper et al. (2005) argue that the qualitative method is a relatively simple method to apply and it is suitable when quick assessment is required. Furthermore, according to Radu (2009) a qualitative method can be used when there is inadequate, limited or unavailable numerical data and also in case of limited time or money. In practice multinational enterprises tend to use chiefly the qualitative approach, because it is more convenient for corporations to describe risks than to quantify them (Lichtenstein, 1996; Al Khattab, 2015). Furthermore, a review of these studies using a qualitative method demonstrates that the main risk category to assess is the political risk (Kettis, 2004; Knowles, 2005; Moran, 2001; Demirbag et al. 1998). According to Al Khattab et al. (2015) by performing the qualitative method there are different tools which can be deployed. The most common tools are:

- Judgement and intuition of manager
- Scenario development

- Expert opinion
- Standardized checklist
- Delphi technique

The judgement and opinion of the managers or other professionals within the organization involved with the subject can be required in some specific situations. The use of their experience and in-depth knowledge is an advantage, however the results may be more subjective (PMI, 2000). Scenario analysis is the development of several scenarios about how the future might turn out. The analysis is a technique that explores assumptions. Risks can be identified through considering future developments and exploring the implications. Different scenarios can be drawn up, and for each scenario the potential consequences and probabilities can be analyzed (PMI, 2000). Expert opinions are often required to assess specific risks. The expertise can be provided by an individual or group with specialized knowledge. Experts can come from many disciplines such as industry groups, public authorities or universities (PMI, 2000).

The standard checklist is a list of assessed risks that has been developed from experience, for example as a result of previous assessments. An advantage of using a standard checklist is its quick and simple use. However, it is difficult to build and assess an exhaustive list of risks by using checklists. A standard checklist can be used as a part of other risk assessment techniques, but it is most useful to apply afterwards in order to check if everything has been covered (PMI, 2000).

The Delphi technique is a way to reach a reliable consensus of experts on a specific subject. Experts participate anonymously and the facilitator uses a questionnaire to attract opinions about the subject. The results are submitted and it will subsequently be circulated to the experts for further comment. This step will be repeated till consensus on the main risks is reached. Accordingly, this technique reduces bias in the data and keeps a person from having undue influence (PMI, 2000). The Delphi technique recognizes the value of the opinion and experience of experts and makes it possible to use the limited information.

4.3.2 Quantitative method

On the other hand, quantitative risk analysis assigns numeric values to risks by using empirical data or by quantified qualitative data (Palisade, 2016). According to Al Khattab et al. (2015) the quantitative approach is an advanced way of risk analysis and it is used to provide statistical evidence for risk prediction and the impact. Al Khattab et al. (2015) argue that a quantitative method requires a direct correlation to the value of the assets to protect against the risk. Ting (1988) furthermore argues that quantitative risk assessments are analytical procedures based on data that can lend themselves to statistical or mathematical operations. Therefore to perform quantitative assessments complex software and the expertise to use it are required (Heldman, 2005). Techniques to perform a qualitative risk analysis are:

- Monte Carlo simulation
- Sensitivity analysis
- Diagramming technique

4.3.3 Comparison qualitative and quantitative method

According to Wienclaw (2016) no matter how one tries to assess risk, the perception of risk is always a subjective thing. The subjectivity of risk assessing is also claimed by Hood and Nawaz (2004) who

stated that the identification of risks may be a straightforward step, however its measurement and management tend to be more subjective. Also Brink (2004) claims that measuring country risks depends to a great extent on subjective human judgement, which could be a handicap. Although the subjectivity, Wienclaw (2016) argues that measuring the risk is an important and necessary task. Ritchie and Marshal (1993) claim that there are neither foolproof nor objective methods available for the measurement of the risks in organizations. However, according to Knowles (2005) and Al Khattab et al. (2015) qualitative tools are more subjective and vulnerable to errors than quantitative tools.

According to Loghry and Veach (2009) it is usually impossible to mathematically calculate the probability of the identified risks to occur. Therefore they argue that the probability for each risks to occur should be assigned based on all available data, including historical data. According to Loghry and Veach (2009) the frequency of previous event occurrences indicates a strong probability of the identified risk factors to occur. They furthermore claim that only personnel who are closely associated with the organization can assess the impact of an identified risk on the company. This critical step in the process of risk measuring should not be assessed by outside consultants. Cooper et al. (2005) also state that, very often the best sources of information to assess the impact of the risks on the company are the members of the company itself. However, according to Cooper et al. (2005) additional information, including historical records, published literature, reports and project experience, can be required. Furthermore, Eleftheriadis and Vyttas (2017) argue that the use of questionnaires is a well-documented practice to measure risk.

4.3.4 Format and scales

Before measuring each identified risk by doing business in Kazakhstan and Turkey for Company X, the format and scales used to rate the risks have to be established. In the literature there are several methods described one can use, however the most common format used is the risk probability/impact matrix (Barton et al. 2001; Dumbrava and Iacob, 2013; PMI 2000; Cooper et al. 2005; Getz, 2017; Shortreed, 2010). According to Barton et al. (2001) the most important advantage of using the matrix is that companies can summarize all risks in one visual display.

According to Cooper et al. (2005) and Shortreed (2010) the probability/impact matrix used in practice mainly varies from a three-point scale to a five-point scale. Argued by Cooper et al. (2005) a two-point scale is a very simple structure and produces rarely enough discrimination to accurate assess the risks. On the other hand, the five-by-five matrix is an extensive one and it provides great discrimination and allows classifications of priority. However, scales with more than five points are not workable and they are often cumbersome to use in practice.

Although the probability/impact matrix is a popular matrix to use, it should be used with caution argued by Shortreed (2010). According to Cooper et al. (2005) the most critical step is to clearly define the definitions of the probability and impact scales to use when implementing a probability/impact matrix. These scales depend on the nature of the objectives and criteria and also on the kinds of risk to assess. Cooper et al. (2005) furthermore argue that the scales to use should be accepted by senior management and also Getz (2017) claim that managers of the organization have to agree. According to Cooper et al. (2005) likelihoods can be rated in different terms varying from annual occurrence to the occurrence in a time span of 40 years and the impact scales should reflect the objectives of the risk management process. However, Cooper et al. (2005) argue that the scales

should be used for assessing priorities of the identified risks, so comparability and consistency could be more important than absolute numbers.

The format to use in this study will be a four-by-four matrix. This format will provide sufficient discrimination to assess the different identified risks and to prioritize them. Furthermore a four-point scale will be easy to use and it is expected that more distinctions between the scales will not be relevant. To assess the probability of a risk to occur, a time span of three years will be used, because the risk categories to investigate (political, economic and financial) have to be investigated over a middle-long time period. A shorter time period will probably not announce enough about the probability of some risks. In addition, a longer time period requires a higher extent of estimation. The probability of the risk to occur will be scaled on 'almost certain, likely, unlikely and rare'. Secondly, the impact scales are defined based on a decrease of the turnover of Company X in Kazakhstan and Turkey, everything else remaining equal. The impact of the risks is defined in 'catastrophic, major, minor and insignificant'. The meaning of these scales, as shown in figure 11, differs in the percentage of turnover**.** Risks are insignificant if the estimated impact on the turnover of Company X is not more than 4%. However risks with an estimated impact to decrease the turnover with more than 20% are classified as catastrophic. The impact scales are drafted in consultation with the group controller of Company X. However, it should be appointed that after identifying the risk factors it might be possible that the matrix and scales of the probability and impact are not suitable for the risks identified. In that case the matrix can be adjusted.

Probability					
	Almost certain				
	Likely				
	Unlikely				
	Rare				
		Insignificant	Minor	Major	Catastrophic
	Impact	0% - 4%	4% - 12%	12% - 20%	> 20%

Figure 11. Four-point risk probability/impact matrix adapted from Cooper et al. (2005) and Shortreed (2010)

4.3.5 Synthesize

To measure the probability and the impact of the identified risks by doing business in Kazakhstan and Turkey for Company X the qualitative method will be deployed, using documentation review, a questionnaire and interviews. All the data will be translated into numerical values, making it possible to put the risks in the probability/impact matrix and prioritize them.

Documentation review, including historical data and specific country rating reports is expected to provide useful information, in particular to measure the probability of the risks. A questionnaire will be conducted to perceive the opinion of external experts with knowledge about the identified risks of the specific countries Kazakhstan and Turkey. The experts will be asked to give scores on both the

probability and the impact of the identified risks. For each dimension of a risk they can give a score varying from rare, unlikely, likely and almost certain and a score of insignificant, minor, major and catastrophic. By using these scores there is consistency with the scales deployed in the probability/impact matrix. The questionnaire will be held by e-mail and the experts to question will be selected based their experience and knowledge. For both countries around the 50 experts will be invited. However, it is not the aim of this study to generalize the results and therefore there is not a minimum number of response required.

Lastly, conducting interviews will be an important tool to measure the probability and the impact of the risks. Again, the managers / directors responsible for the performance of the subsidiaries in Kazakhstan and Turkey will be interviewed as well as the finance director of Company X. These persons are considered as the inside experts of Company X about the practices in Kazakhstan and Turkey and therefore it is expected that they can provide useful information in order to assess the risks. Claimed by Loghry and Veach (2009) and Cooper et al. (2005) the best sources of information to assess the impact of the risks on the company are the members of the company itself. Therefore in particular to assess the impact of the risks on the company, these interviews will be advantageous. The interviews will be semi-structured and the structure of it will be drawn up beforehand based on all the risks identified in the previous step and the qualitative data of the documentation review. During the interviews the interviewees are asked to give scores for the probability and the impact of an identified risk in the same way as the respondents of the questionnaires are asked to do. For each dimension of a risk they can give a score consistent with the scales of the probability/impact matrix.

After conducting the documentation review, the questionnaire and the interviews the total assessment of the probability and the impact of each risk will be made. The qualitative data of the documentation review will be used to conduct the interviews. The scores given by the questionnaire respondents and the interviewees will be combined and these combined scores will be the total assessment of the probability and the impact of each risk. To combine the scores of the probability dimension the scores of the respondents and the scores of the interviewees will have the same weighting. However to assess the impact dimension, the scores given by the employees of Company X are substantial important and therefore their scores will have a weight of 70% and the scores of the respondents will weigh 30%. The total assessment of the risks will be visualized in the four-point scale probability/impact matrix.

4.4 Risk management strategy

After the identified risks are ranked based on the probability of occurring and the impact on the firm performance, a strategy has to be developed in order to respond to the risks. Managing the risks in general has positive effects on the company. Positive effects can be defined in different ways such as relatively stable earnings, higher firm value or better financial performance. Several cases have demonstrated the positive effects. The study by Edmonds et al. (2015) found evidence that lower earnings volatility is achieved by high-quality risk management. According to Choi et al. (2013) the use of financial derivatives is associated with greater firm value and this is greater for firms with better growth opportunities. Florio and Leoni (2017) found evidence that firms with an advanced level of risk management present higher performance, which means both financial performance and market evaluation.

Although managing the risks in general has positive effects, there are many type of risks which cannot be eliminated completely or the benefit of managing risk exposure is not always worth the effort. Therefore the choices to respond to risks generally can be classified into four strategies, as shown in figure 12 (Knight, 1999). According to Mullai (2006) there is a large array of approaches for dealing with risks and also Amberg and Friberg (2016) argue that there are many different ways of managing risk. However, both claim also that there are generally four principal strategies. According to Amberg and Friberg (2016) the choice of strategy depends on the sources and extent of the risks as well as the capabilities and circumstances of the company itself.

	Risk management strategies	
A	*Avoid*	- Eliminate
R	*Reduce*	- Reduce the frequency of causes (prevention) - Reduce the frequency of consequences - Reduce or minimise consequences (mitigation)
T	*Transfer*	- Transfer by contract - Transfer by insurance - Physical transfer - Risk sharing
A	*Accept*	- Retain

Figure 12. Risk management strategies classification according to Knight (1999)

4.4.1 Avoid risk

The most radical strategy is to avoid the risk. According to Mullai (2006) avoiding the risk implies the elimination of the risk at the source by not performing the particular activity that involves the risk. Avoidance is an option when a company refuses to engage with the risk in any kind. Although avoiding risk is a straightforward strategy, it also results in missing potential revenues. So, by deploying this strategy the potential rewards of the particular activities are not worth the involved risks. Argued by Ramsamy (2017) the strategy of avoiding risks should be used as a last resort.

4.4.2 Reduce risk

In most cases avoiding the risk is not possible or desirable, then a useful strategy is to reduce the risk. Mullai (2006) states that the strategy of reduction the risk involves two fundamental aspects which are prevention and mitigation. Prevention includes reducing the likelihood of a risk factor to occur, whereas mitigation implies the reduction of the impact of a risk factor if they occur. According to Ramsamy (2017) and Herrera (2013) risk reduction is the most common strategy used by businesses. So, with the strategy of risk reduction the company is able to continue the activity and takes steps to reduce the likelihood of occurring of a risk event and/or reduce the impact of a risk event if it occurs.

4.4.3 Transfer risk

Another strategy to manage risk is by transfer it away from the organization. Risk transference is shifting the risk with its impact and management to a third party. It takes place by paying a premium to an organization in exchange for the protection against the impact of the risk. According to Mullai

(2006) transferring the risk is most effective in dealing with financial risk exposure. Risk transfer can be carried out in different ways including: transfer by insurance, risk sharing, transfer by contract and physical transfer. According to the PMI (2000) risk transfer by insurance is the most common form. More type of risks have become commercially insured in recent years, however still not every type of risk is insurable. According to Cooper et al. (2005) insurance is a well-known risk sharing strategy and it is in particular useful for risks with a low probability of occurring but a high impact. Risk sharing is pooling arrangements providing organizations the possibility to co-operate in sharing risks, for example joint ventures or partnerships (Queensland Government, 2016).

4.4.4 Accepting risk

Accepting the risk means that the company will take no action for the risk. It accepts that the risk might happen. According to Cooper et al. (2005) risks can sometimes not be avoided, reduced or transferred or the costs of doing it will be too high. Taking these circumstances into account, the organization has to accept the risks. Risks will also be accepted if they have not a significant impact on the company. Accepting the risk is a strategy for risks where the cost of reducing or transferring it would be higher than the potential total loss of the risk (Mullai, 2006).

4.4.5 Develop risk management strategy

To develop the risk management strategy to deal with the assessed risks, distinction between the three categories of risks should be considered. The categories of risk (political, economic and financial) can desire a different strategy. When risks cannot be avoided and not be accepted or it is not desirable to do so, steps should be taken to reduce or transfer them.

According to Stephens (2016) managing political risk is a challenging task. Although it seems that transferring a political risk is difficult, Stephens (2016) argues that steps to reduce the probability and/or impact of a political risk are to consider engagement with nongovernmental stakeholders, working together with multilateral organizations and ensure that dispute resolution mechanisms are in place.

To manage foreign currency exposure there are different instruments. According to Melvin and Norrbin (2013) the possible instruments to use are forwards, swaps, futures and options. The same instruments are mentioned by Amberg and Friberg (2016) as they state it as derivatives. Forwards refer to the buying and selling of currencies at a future date (Melvin and Norrbin, 2013). The advantage of the forward market is that it provides a set of exchange rates between two currencies. According to Wang (2009) futures are in many ways similar to forwards and they are the most straightforward derivative products. Both derivatives specify a certain amount of an asset, a commodity or a financial asset to be purchased or sold at a predetermined price at a predetermined time. However, futures are standardized contracts with daily resettlement whereas forwards are private, customized agreements and settled at the end of the contract. Wang (2009) argues furthermore that options are much more complicated and not that straightforward as forwards and futures. However, Melvin and Norrbin (2013) claim that the use of options is straightforward. They define a foreign currency option as a contract which provides the right to buy or sell a given amount of currency at a fixed exchange rate. The advantage of using options over futures or forwards is more flexibility, because a future or forward contract is an obligation to buy or sell at an exchange rate. On the other hand an option gives the right to buy or sell if it is desirable and it is not an obligation. Lastly, according to Melvin and Norrbin (2013) an exchange swap is an arrangement with

simultaneous exchange of two currencies on a specific date and at an agreed rate at the time of contract and also a reverse exchange of the same currencies at a date further in the future.

So, first the identified and assessed risks will be prioritized. Based on the prioritization of the risks there will be made a distinction between risks of which the exposure to the company will be accepted and have to be accepted and risks to manage through reducing or transferring them.

4.5 Evaluate the performance

Evaluating the performance of the risk management process is an important step in the framework of Crouhy et al. (2006). They claim that evaluating must be done periodically and that the evaluation should assess the extent to which the overall goals were achieved, rather than assessing specific transactions. Crouhy et al. (2006) furthermore argue that deciding whether or not to change the company's risk policy should also be considered when the performance of the risk management process is evaluated. Although evaluating the performance is an important step in the process of Crouhy et al. (2006), it will not be part of this study because it is not the objective of the study to evaluate the recommendations given and it furthermore crosses the available time period.

4.6 Summarize

To conduct the three steps of the process developed by Crouhy et al. (2006), the research design of this study includes several tools and different classifications. Figure 13 demonstrates an overview of the research design.

Steps of risk management process	**Reference / classification**	**Method**
Risk identification	Eun et al. (2012) Xuemei Hou (2013) Hoti and McAleer (2004) ICRG (2017)	Documentation review semi-structured interviews
Risk measurement	Four-point probability / impact matrix adapted from Cooper et al. (2005) and Shortreed (2010)	Documentation review Questionnaire semi-structured interviews
Risk management strategy	Knight (1999)	Desk research

Figure 13. Research design overview

5. Data

Documentation review is an important tool to identify risks by doing business in Turkey and Kazakhstan and it is also expected to be useful to assess the risks. The secondary data sources include internal data from Company X such as the annual report and Listing Prospectus. Furthermore external available documents will be consulted.

Country specific information of Kazakhstan and Turkey from the last five years, including data about the political, economic and financial situation, is required. Therefore, among other things information provided by the following sources will be used:

Internal reports

- Annual report Company X
- Listing prospectus Company X

External country reports

- International Country Risk Guide (ICRG)
- The World Bank
- Euler Hermes
- Organization for Economic Co-operation and Development (OECD)
- Economist Intelligence Unit (EIU)
- Flanders investment and trade
- A.M. Best
- Credendo
- Coface
- Atradius
- BMI research (a Fitch group company)
- Global Edge
- International Monetary Fund (IMF)
- World Trade Organization (WTO)

Government reports

- Export US government
- Kazakhstan Investment portal
- Kaz inform. International news agency
- Australian government (Australian trade and investment commission)
- UK Government
- Dutch ministry of landbouw, natuur en voedselkwaliteit

In addition country specific reports published by Dutch banks such as Rabobank and ING are sources with useful data and the National Bank of Kazakhstan and the National Bank of Turkey publish specific information as well.

6. Results Turkey

Introduction

This chapter presents the results of the research conducted for Company X by operating in Turkey. The chapter starts with a short introduction of Turkey. Thereafter the results are presented starting with the list of risk factors identified for Company X by doing business in Turkey with a description, dividing the three categories of risks. Subsequently, each risk factor will be described in detail. Next, the degree of probability that the risk factor will occur and the impact the risk factor might have if it occurs are presented for each risk factor. After the results of all the risk factors are presented and reviewed, the degree of all the risk factors are presented in the probability / impact matrix. The matrix clearly demonstrates an overview of the most significant risks to control based on the probability to occur and the potential impact. Finally, the chapter ends with recommendations about the best way to manage the risk exposure for Company X in Turkey.

The risk factors are identified based on the documentation review of internal reports of Company X, external country reports and government reports including the World Bank and the European Union and interviews with the managing director and the division controller of the Turkish subsidiaries of Company X. Thereafter the measurement of the probability and the impact of the risk factors are based on the results of the survey spread to experts with knowledge of Turkey combined with the results of the survey filled in by the managing director and the division controller and the information from the desk research. In total 52 experts with specific knowledge of Turkey were asked by e-mail to fill in the survey in order to measure the identified risks. Among these experts are country experts of Dutch banks such as Rabobank and ING, country experts and lead/senior economists of the World Bank, experts from the Dutch Ministry of Foreign affairs such as the agriculture counselor for Turkey, country experts from the Dutch embassy in Turkey and associates of the Dutch Honory Consulate in Turkey. Finally there is a response of six. The interview guidelines (Appendix I and Appendix II) as well as the survey (Appendix III) and the total results of the survey (Appendix IV) can be found in the appendices.

6.1 Introduction of Turkey

The Republic of Turkey is located between Asia and Europe. Since 2000 the performance of Turkey has been impressive (The World Bank, 2017). Economic reforms combined with political reforms contributed to a strong growing economy (Central Intelligence Agency, 2018). As a result, macroeconomic stability enabled an increased employment and made Turkey an upper-middle income country. In addition the country urbanized strongly and harmonized several laws and regulations with the EU standards (The World Bank, 2017).

However, since 2012, several developments raised concerns about the capacity of Turkey to sustain the progress. The economic growth slowed due to several causes. Turkey's macroeconomic stability has been challenged (The World Bank, 2017). Furthermore, political stability has been challenged since 2015 and the government changed Turkey from a parliamentary to a presidential system in 2017 (Central Intelligence Agency, 2018). At the same time the county experienced series of terroristic attacks (The World Bank, 2017).

Company X has been active in Turkey since 2015 so it already has experienced the turbulent circumstances in the country. Despite those circumstances, the company already doubled its turnover the second year of being active in the country, as shown in figure 14. However, the turbulent circumstances of Turkey, including the economic, financial and political factors also seem to affect Company X as the turnover of 2017 declined slightly compared to the year before. Therefore, the risk factors for Company X that can negatively influence the results of the company in Turkey are identified and assessed, divided into the three categories of economic, financial and political.

2015	2016	2017
X	X	X

Figure 14. Turnover of Company X in Turkey (Company X, 2018)

6.2 Risk factors for Company X by doing business in Turkey

Economic

1. **Decrease in prices of agricultural products e.g. grains such as wheat and maize**

End-users of the products distributed by Company X can be affected by fluctuations in agricultural products prices. A decrease in the prices of agricultural products can decrease their willingness to invest.

2. **High / rising interest rates**

High interest rates imply that acquiring financial resources is costly for end-users in Turkey and therefore their willingness to invest can decrease.

3. **Increase in local production of agricultural machinery and equipment**

Local production and assembly of agricultural machinery and equipment can cause less need for Turkish end-users to import their machinery and equipment.

Financial / currency exchange

4. **Depreciation of the lira**

A depreciation of the national currency, the lira, can decrease the willingness of the end-users to import machinery and equipment.

5. **Currency transfer restrictions**

To stimulate the use of the national currency, the government can make restrictions on the amount of foreign currency that may be imported or exported.

Political

6. **Catastrophic events / conflicts**

National – and international conflicts such as a civil war, coup threat, terrorism, wars or cross-border conflicts can affect the whole economy of the country which makes conditions for foreign companies less favorable. Those events can also directly affect the locations of Company X in the country.

7. **Further rising tensions between Turkey and Western Europe**

Further rising tensions can decrease the willingness or ability of the end-users to import from Western Europe.

8. **Decrease or ending of the subsidies and other incentives to stimulate the agricultural sector by the Turkish government**

A decrease or ending of the government support in the agricultural sector can lead to a decrease in the willingness to invest by the end-users.

9. **Decrease or ending of the subsidies to stimulate the agricultural sector in Turkey by the EU (IPARD)**

Turkish end-users can be affected by a decrease or ending of the substantial support of the European Union, which can impact their willingness to invest.

6.3 Description and measuring of the risk factors

Economic

1. Decrease in prices of agricultural products such as grains, wheat and maize

Turkish end-users of the agricultural machinery and equipment distributed by Company X are directly affected by fluctuations in agricultural product prices, mainly grains such as wheat and maize. A decrease in the prices of the products produced by the Turkish end-users can affect their income. The willingness of the Turkish end-users to invest in agricultural machinery and equipment decreases as a result of a decrease in prices of agricultural products. Company X will be affected by less investments of the end-users resulting in an adverse effect on the results of the company in Turkey. Therefore Company X is indirectly affected by a decrease in prices of agricultural products such as wheat and maize.

Probability

The current prices of the agricultural products wheat and maize are relatively low compared to recent years. Since 2014 the prices of both products dropped, as shown in figure 15. The huge price decrease was caused by oversupply of the agricultural products. The supply exceeded the global demand, leading to record stock levels in 2017. The supply of wheat and maize increased the most (OECD/FAO, 2017). Although the supply of the agricultural products depends mainly on the weather conditions, the current supply and demand conditions are expected to remain the coming years as displayed in the estimates published by the OECD and FAO in their agricultural outlook 2017-2016. In figure 32 (Appendix), the worldwide production and consumption figures of wheat and maize are shown. According to these figures the wheat production will keep exceeding the demand, however the maize production is expected to approach the demand.

Figure 15. Price fluctuations maize and wheat (The World Bank, 2018)

The continued large surplus of the grains products, which is especially the case for wheat, is anticipated to keep pressure on the prices and therefore the prices are not expected to recover on the short term as shown in figure 16. Furthermore, the prices of the commodities are projected to remain under pressure due to sluggish economic growth conditions and low oil prices (OECD-FAO, 2017). However, on the medium term the prices are expected to increase slightly, as also shown in figure 33 (appendix) by the forecast of the OECD-FAO (2017).

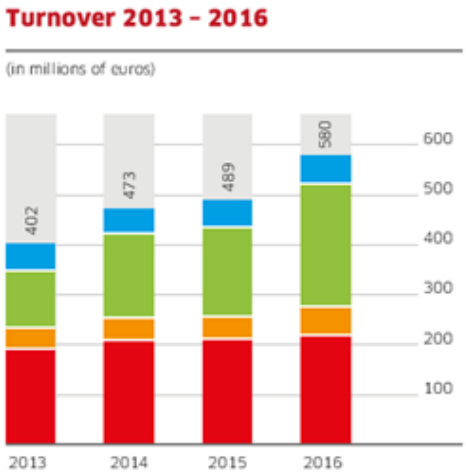
Commodity	Unit	2014	2015	2016	Forecasts 2017	2018	2019	2020	2025	2030
Grains										
Barley	$/mt	138	194	159	140	144	148	152	174	200
Maize	$/mt	193	170	159	155	159	162	166	187	210
Rice, Thailand, 5%	$/mt	423	386	396	400	403	406	409	424	440
Wheat	$/mt	285	204	167	175	179	184	188	213	240

Figure 16. Price forecast of maize and wheat (The World Bank, 2017)

So, based on the forecasts of the OECD Food and Agriculture organization and The World Bank Group it is expected that prices of the agricultural products wheat and maize remain at the current low level in the short term given the conditions. However, according to the organizations the lowest price level has been reached and a further decrease in the prices is not projected. It seems that the respondents and the interviewees are not very sure about the probability of a decrease in the prices of the products, as the scores of the respondents and the interviewees do not show an unequivocal view.

Impact

The impact of the continued low prices of wheat and maize or even a further decrease in the prices of the agricultural products for Company X in Turkey is not great. Although, one of the main indicators for the farmers in order to invest is the international market prices of agricultural products and subsequently a decrease in the prices of the products affects the business results of the end-users which finally can decrease their willingness to invest. However, comparing the historical sales of Company X with the decreased level of the wheat and maize prices do not show a relation, as shown in figure 17.



Country		WORLD			
Year		2013	2014	2015	2016
Commodity	Variable				
Wheat	World Price	318,49	271,92	214,82	195,33
Maize		203,24	171,51	164,46	157,17

Figure 17. The turnover of Company X and the prices of wheat and maize for the period 2013 – 2016 (Company X, 2017) (OECD-FAO, 2017)

There is not a significant relationship between the decreased prices of the agricultural products and a reduced turnover for Company X. Although, this could be caused by the fact that the turnover of Company X has increased among other things through acquisitions. According to Hermann Lohbeck (2017), member of the board of the Claas Group, farmers are spending despite low grain prices. The main reason of the farmers' expenditure is their seeking to new technology in order to improve the efficiency. The results in Kazakhstan and Turkey of Claas were even better than expected (The Western Producer, 2017). Furthermore, Turkish farmers are still supported by several stimulating programs, as pointed out in risk factors 9 and 10. As a result, the ability and the willingness of the farmers to invest is not completely dependent on the market prices of the agricultural products.

Due to the farmers' demand to new technology, the stimulating programs by the Turkish government and the historical figures which did not show a relationship, it is expected that the impact of the risk factor will be minor. Although, the opinions of the respondents do not match this outcome, as a major impact of the risk factor is the most given score by the respondents. None of the respondents explained their opinion. However, it could be feasible the respondents were not aware about the farmers' demand to new technology and the historical data that did not show any relationship.

2. High / rising interest rates

An end-users decision to purchase machinery and equipment is dependent on the ability of the end-user to finance these purchases. Interest rate costs are a significant component of the financing costs in order to acquire financial resources (Company X, 2016). Agricultural machinery and equipment are major investments for the end-users. In order to purchase the machinery and equipment, end-users can obtain financial resources by usings loans or by deploying subsidy programs, which are discussed later in this study.

Volatility in the credit markets can make it more difficult for the end-users to obtain finance by loans as the costs of getting the financial resources become higher if interest rates rise. Argued by interviewee X**:** 'in general, a rise in interest rates discourages investments'.

Therefore increases in interest rates can make the purchase of machinery and equipment less affordable for end-users. Subsequently, due to volatility in credit markets and high interest rates, the willingness to invest by the end-users in Turkey may decrease. Conclusively, the results of Company X are indirectly affected by rising interest rates in Turkey.

Probability

The business credit interest rates have made a rise the last years in Turkey. After the coup attempt the rates increased further as shown in figure 18. Due to the depreciated Turkish lira, the country experienced high inflation. In order to stop the rapidly rising inflation and to get the confidence of foreign investors, the Turkish Central Bank increased the interest rates (Rabobank, 2017). Although several attempts by president Erdogan, who calls himself an 'enemy of interest rates', to decrease the rates, the interest rates still rise approaching a rate of 20%. Besides the tight monetary stance by the Turkish Central Bank resulting from the depreciated lira, other causes for the rising interest rates are higher borrowing by the Treasury and an aversion to volatile risks in emerging countries by investors (Coface, 2017).

The high interest rates are expected to remain in the coming period as the lira still depreciates and as a result the country still suffers from a further deterioration in inflation. Argued by Turkish Deputy Prime Minister Mehmet Simsek bringing down the national inflation is a government priority. In order to control any deterioration in inflation the Central Bank needs to keep its monetary stance tight, meaning that interest rates will remain high (Coface 2017). The opinion of the respondents confirm the high probability about the chance that interest rates in Turkey remain high or will rise, as they estimate the risk factor as almost certain to happen.

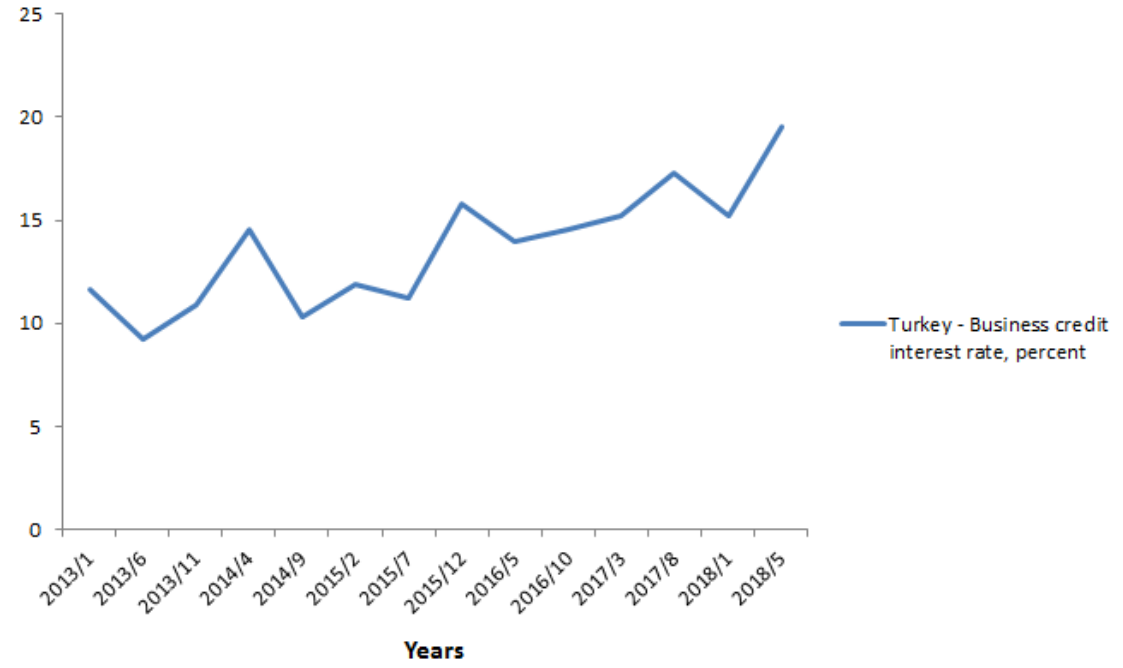


Figure 18. Interest rate fluctuations Turkey (Central Bank of the Republic of Turkey, 2018)

So, given the economic conditions of Turkey it is expected that interest rates will stay at a high level or will even rise at least for the short term. As long as the Turkish lira shows volatility and the policy of the Turkish Central Bank continues, the country will not be attractive for investors and it will continue to suffer from high interest rates.

Impact

Although it is almost certain that there will be high interest rates in Turkey for the coming period, the impact of the high interest rates in Turkey on Company X is limited. Due to the high rates, investing by the Turkish farmers becomes less favorable, also the costs of leasing rises. According to interviewee Y leasing is an often used way to acquire agricultural machinery and equipment. However, because of the importance of the agricultural sector for Turkey, the government provides very favorable loans for Turkish farmers. Through the Ziraat Bank, the Turkish government offers loans with an interest of 1%. Although, to obtain these favorable credits farmers have to satisfy several terms and requirements. However, most of the clients of Company X in Turkey have access to the subsidized loan and therefore the impact of high interest rates for the results of Company X in Turkey is limited.

3. Increase in local production of agricultural machinery and equipment

An increase in the local production of agricultural machinery and equipment in Turkey may cause less need for Turkish end-users to import machinery and equipment. According to interviewee X are local producers in Turkey able to offer agricultural machinery and equipment more than 50% cheaper than the machinery and equipment of well-known A-brands. Although the local machinery and equipment do not have the same technical properties, the local producers can imitate the machinery of well-known brands very well and the expression is almost the same.

As a result, end-users of agricultural machinery and equipment in Turkey have less need to import the machinery from abroad as it is also provided locally and even cheaper. Therefore an increase in local production of agricultural machinery and equipment in Turkey may affect the willingness of

Turkish end-users to import machinery and equipment. As a result, an increase in the local production can indirectly affect the results of Company X in Turkey.

Probability

The probability of an increase in the local production of agricultural machinery and equipment is very likely to happen. According to interviewee X and interviewee Y the local production of machinery in Turkey is a big issue. The Turkish government is stimulating the local production of agricultural machinery and equipment and according to the European association of manufacturers of agricultural machinery committee (CEMA, 2017) there is even a chance that the Turkish government will implement a discriminatory treatment. A consequence of using that different treatment is that machinery produced in the EU need to meet stricter requirements, while local produced machinery only has to meet simple requirements. Furthermore, the Turkish government is stimulating Turkish students to become engineer, resulting in 450.000 engineers graduating every year (Republic of Turkey Prime Ministry Investment Support and Promotion Agency, 2017).

Due to the drive of the Turkish government, an increase in the local production of the Turkish agricultural machinery and equipment is anticipated. In addition, an increase in the local production of agricultural machinery and equipment is already in progress. As shown in figure 19 the production of tractors by Turkish manufacturers has increased and remains at a high level since 2011. Also the local production of agricultural equipment seems to increase. In figure 19 are also the values of the total import and the total export of the equipment visible. It becomes clear that the total value of the agricultural equipment imported by Turkey declines, adversely the total value of the agricultural equipment exported by Turkey increases. In 2017 the total value of the export even exceeded the total value of the import (Tarmakbir, 2018).

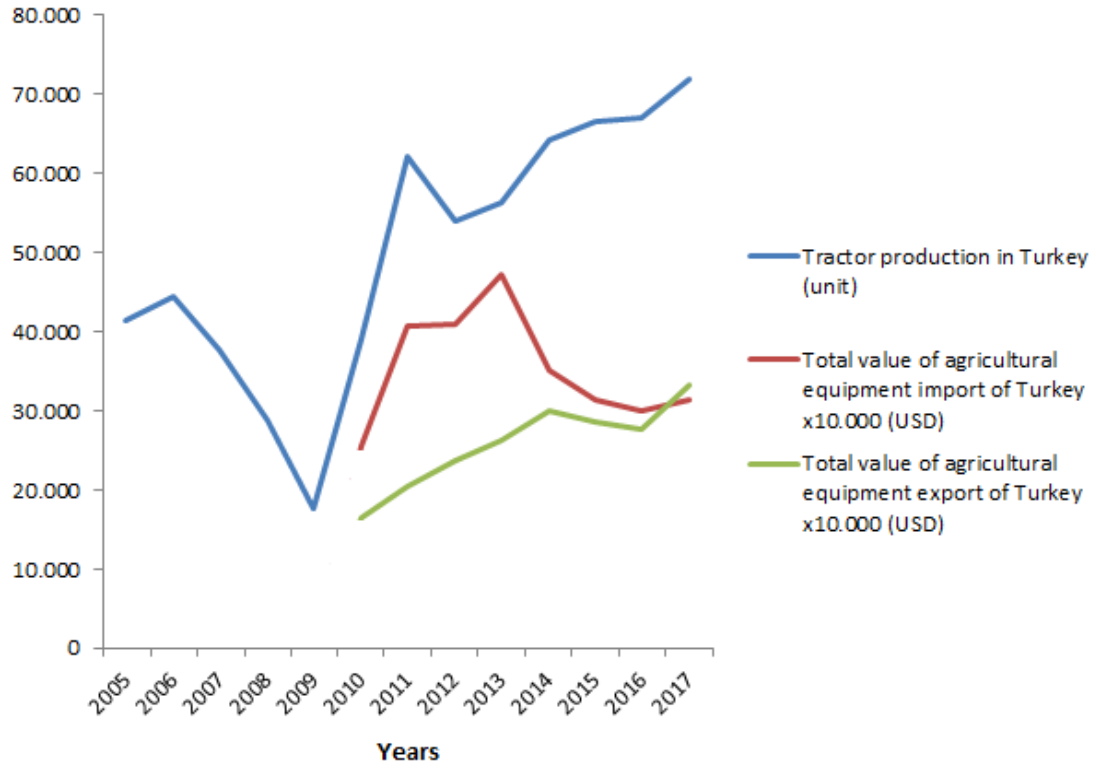


Figure 19. Tractor production in Turkey and the total value of agricultural equipment export and import (Tarmakbir, 2018)

So, it is expected that the local production of agricultural machinery and equipment in Turkey will increase. The Turkish government is stimulating the local production and the latest figures already show an increase in the production of tractors. Furthermore, in 2017 the total value of the export of machinery exceeded the total value of the import for the first time in the country's history. The respondents also unanimously confirm the high probability of an increase in the local production.

Impact

The impact of an increase in the production of local machinery and equipment for Company X in Turkey is substantial. The aim of Turkish local producers is to imitate the agricultural machinery and equipment from well-known brands such as brands offered by Company X. Although the imitated machinery and equipment do not have the same technical qualities, they look exactly the same.

According to interviewee Y the Turkish farmers are challenging customers for Company X, because in general they have more attention for the price of the machinery and equipment than for the technical properties of the products. So their tendency is to purchase agricultural machinery and equipment based on the prices in the market, with less attention for the qualities of the machinery and equipment. Although there is no historical data available to confirm this statement. In addition, interviewee Y argues that the Turkish agricultural sector is in a stage of transition, meaning that Turkish farmers slowly move their attention from a strong price focus to seeking out to new technological possibilities. This was already claimed by Hermann Lohbeck.

Furthermore, according to CEMA (2017) there is a real chance that the Turkish government will implement a discriminatory treatment between tractors produced in Turkey and tractors produced in the EU. In that case the Turkish farmers who are aware of the technical difference between the machinery and equipment produced by Turkish local manufacturers and the EU-produced machinery and equipment are at a disadvantage. Turkish farmers who are willing to invest in agricultural machinery and equipment produced in the EU will face a cost penalty of more than 10% of the purchasing sum. These farmers will get furthermore difficulties to have access to other governmental subsidies such as cheap fuel.

So the impact of an increase in the local production of agricultural machinery and equipment on Company X could be major. Especially if the government would implement their discriminatory treatment, the impact will be appreciable because in that case farmers will be punished when they purchase EU-produced machinery. However, on the contrary it is questionable whether Turkish farmers will remain their attention mostly to the prices of the machinery instead of the technical properties.

Financial

4. Depreciation of the lira

A depreciation of the Turkish national currency, the lira, may have several major consequences for the end-users as well as Company X.

According to interviewee Y, approximately 90% of the total transactions of the agricultural machinery and equipment offered by Company X are sold in Turkish lira. Therefore the company is directly as well as indirectly affected by fluctuations in the value of the currency. A decrease in the value of the lira can directly affect the results of Company X due to a difference in the value of the lira between the moment of selling a product and the moment of paying the product by the Turkish end-user. In the literature this type of currency risk is called a transaction risk and according to Green (2016) the exposure increases when the greater the deviation between the moment of selling and the moment of paying. According to interviewee X there are extensive payment terms in Turkey which increases the exposure of the risk.

Furthermore, a decline in the value of the lira may decrease the willingness of the end-users to invest. The Turkish end-users do not have to convert their Turkish lira into a foreign currency to purchase the products of Company X and therefore they are not directly exposed to a depreciation of the lira. However, according to interviewee Y as the value of the lira fluctuates, Company X constantly adjusts the prices of the agricultural machines and equipment offered in lira, maintaining the worth of the machinery in euros. Adjusting the price of the machinery in lira to the value of the machinery in euro's means that a decrease in the value of the lira causes a price increase for the products offered in Turkey by Company X. Subsequently, the purchasing power of Turkish end-users, using the national currency, becomes unfavorable. Therefore a decline in the value of the lira may decrease the willingness of the end-users to invest in machinery and equipment offered by Company X.

As a result, Company X is directly as well as indirectly affected by a depreciation of the Turkish lira which could have an adverse effect on the company.

Probability

The Turkish lira has been continually under pressure the last years. As shown in figure 20, the currency depreciated on average against the USD and the euro with 22% in 2015, 10% in 2016 and 19% in 2017 and so far the lira has already depreciated further in 2018. The Turkish currency is extremely vulnerable to external shocks, such as statements by president Erdogan about economic or political policies, the intervention of president Erdogan with the policy of the Central Bank of Turkey and the clashes between Turkey and Western Europe and the US (Euler Hermes Economic Research, 2017).

The responsiveness of the Turkish Central Bank has not been convincing so far. The bank shifted between orthodox and unorthodox measurements to deal with the depreciation of the lira, caused by the efforts of president Erdogan to form the policy of the Central Bank. Although the Central Bank of Turkey is an independent organization, it cannot extract themselves from the statements and the interventions of president Erdogan (Besteman, 2018). As a result of the interventions by Erdogan, the volatility of the lira increased and the depreciation continues.

In addition, another cause of the continued depreciated lira argued by the Nederlandsche Betaal & Wisselmaatschappij (2017) is the large current account deficit of the country. The total value of the import by Turkey is much higher than the total value of the exports, resulting in a decrease of the country's reserves, as shown in figure 35 (Appendix). As a result of the decreased reserves people convert their money in lira into another currency.

So, because the underlying causes of the depreciation of the lira, such as the interventions of president Erdogan with the policy of the Central Bank and the account deficit of the country, are likely to remain in the short term a further depreciation of the lira is expected. Besides, according to the opinion of the respondents it is almost certain that the depreciation of the lira will continue.

Figure 20. Fluctuations of the lira to euro (XE, 2018)

Impact

Since 2015 Company X has been active in Turkey and from that moment the country continuously experienced a depreciation of their national currency. A further depreciation of the lira can have an impact on the results of Company X in Turkey. The company offers its machinery and equipment in Turkey in lira. However in case of a depreciated lira, Company X adjusts the prices of its products to the value of it in euros. So a depreciation of the lira makes it less favorable for Turkish farmers to purchase the machinery and equipment provided by Company X, as the prices will rise.

Although a depreciation of the lira makes it less favorable for Turkish farmers to purchase the machinery of Company X, it is questionable what the impact will be of a further depreciated lira on the results of the company. Since Company X is operating in Turkey the currency depreciated almost non-stop, but the results of Company X in the country improved in the first two years, as showed in figure 14.

Furthermore as already showed in figure 19, the total value of the agricultural machinery and equipment imported by Turkey has decreased the last years but it seems that it has reached a stable level since 2015, despite the continued depreciation of the lira. However, the results from the survey show a clearly opinion of the respondents that the impact of a depreciated lira will be major for the results of Company X.

5. Currency transfer restrictions

The government of a country can make restrictions on the use of foreign currencies by implementing exchange controls such as banning the use of foreign currency, banning the possession of foreign currency or restrictions on the amount of a foreign currency that can be imported or exported (Credendo, 2018). Restrictions on the use of a foreign currency directly affect the end-users as well as Company X. The willingness to invest by end-users can decrease, because they will be required to invest by means of the Turkish lira, which can be much more expensive due to higher interest rates. Furthermore by using the lira, Company X is directly exposed to the risk of fluctuations in the value of the currency.

Probability

It is difficult to estimate the probability that currency transfer restrictions will happen in Turkey. Many different developments in Turkey could have an impact on the chance of the implementation of currency restrictions. The results of the respondents asked by the survey are also showing mixed opinions.

The currently very weak performing lira and the bad economy of the country are possible motives for the government to make some restrictions. Furthermore, the strong power of president Erdogan with the ability to make drastic movements and his aversion to many Western countries makes the probability of currency restrictions likely. In addition, president Erdogan has already proven to be able to implement restrictions. In order to protect the value of the lira, Turkey made rules to have foreign currency loans and implemented this on May 2 2018 (Senocak, 2018). As a result of these new rules, it is almost impossible for Turkish individuals and companies, including foreign companies operating in Turkey, to get new loans in a foreign currency (Gözlüklü and Bicer, 2018). Although, existing loans will not be tackled and experts of the International Tax review (2018) expect the restriction to be temporary, it shows anyhow the ability of the Turkish government to implement restrictions.

However, the probability of more and heavier currency restrictions implemented by the Turkish government such as banning the use of a foreign currency or disallow the conversion of the Turkish lira into a foreign currency is not likely to happen. The impact of the implementation of such restrictions could be disastrous for its own economy, making the country less interesting for foreign investors. While Turkey recognizes its need to attract more foreign investments to recover and stabilize the national economy and also to finance their current account deficit (The U.S. Department of Commerce's International Trade Administration, 2017). Therefore, considering that point of view, more currency transfer restrictions implemented by the Turkish government are not likely to happen.

Impact

The impact of currency transfer restrictions depends on the type of restrictions made by the Turkish government. The recently implemented restriction of the Turkish government to make it difficult to get a loan in foreign currencies will have an impact on the subsidiary of Company X in Turkey as it has a loan in euro, but the impact on the turnover of Company X will probably be insignificant.

Company X mainly avoids the use of euro in Turkey, because most transactions are performed in Turkish lira. By using the lira, the impact on the results of Company X of many restrictions such as the banning of foreign currencies becomes smaller. However, a restriction on the conversion of lira into foreign currencies such as euro will have a major impact on the results of Company X. Because most

transactions of Company X in Turkey are done in the Turkish lira, the company regularly has to convert their received amounts of lira back to euro. By the implementation of such a restriction by the Turkish government, Company X will not be able to consolidate the results of their Turkish subsidiary and furthermore it becomes more exposed to the currency risk of the Turkish lira. However, according to interviewee X, to date, it is an easy process for Company X to convert their turnover in Turkey back to euro, as the banks only charge a small commission.

So the impact of currency restrictions made by the Turkish government varies depending on the type of restrictions. Most restrictions will not have a major impact on the results of Company X due to the use of the lira. However, the impact of a restriction to convert lira into a foreign currency will be substantial for Company X.

Political

6. Catastrophic events / conflicts

Catastrophic events such as terrorist attacks, civil war, coup threats or cross-border conflicts may have several major consequences for the end-users as well as Company X. Unpredictable catastrophic events may reduce the number of workable days of the end-users of Company X as well as the company itself. Reduction of the workable days of the end-users reduces their business results and subsequently that may decrease the willingness to invest in agricultural machinery and equipment. A reduction in the workable days of Company X may reduce the results of the company as it can lead to lower revenues due to inability to perform. In addition, the threat of catastrophic events to occur decreases the willingness of end-users to make investments due to the uncertainty.

Conclusively, the occurrence and the threat of catastrophic events can affect the whole economy of the country, which makes the conditions for foreign companies such as Company X to do business less favorable. As a result, the results of Company X in Turkey are directly as well as indirectly affected by the threat and occurrence of catastrophic events in Turkey.

Probability

Recently, Turkey already experienced several conflicts such as terroristic attacks and cross-border conflicts. Terrorist attacks, a high-tide of refugees and the confrontation with the PKK are major conflicts occurring in Turkey. However, the failed military coup in July 2016, attempting to remove President Erdogan from his power, was probably the most extreme conflict Turkey experienced in recent years. In response of this occurrence Erdogan declared Turkey in a state of emergency and started a mass arrest of military officers and politically leaders (A.M. Best, 2017). Thereafter, the country has been non-stop in an emergency situation with the extension of six times (International Country Risk Guide, 2017). By the emergency situation of Turkey national security authorities have additional authorizations, which enabled president Erdogan to arrest 160.000 people and almost the same number of civil servants, mostly randomly (Nebehay, 2018). Even the Minister of Economy Nihat Zeybekci suggested prudently that perhaps it would be time for the Turkish government to consider less comprehensive restrictions to deal with threats to the domestic security (International Country Risk Guide, 2017). In addition the United Nations also called on Turkey to end the country's state of emergency (Nebehay, 2018). However, the government did not show any sign to follow this advice and it was even announced that a seventh extension of the country's state of emergency would be effective on April 18 2017.

So, with the continually extension of the country's state of emergency, it is expected that domestic political instability will remain which results in a remaining high probability of conflicts to happen.

Furthermore, the threat of terrorism in Turkey is still significant. Since June 2015 many terroristic attacks find place in Turkey and according to the Dutch government (2018), today there is still a high risk of terrorist attacks throughout Turkey. This is mainly because of the rising fight against the organizations of PKK and ISIS. The most unsafe areas of Turkey are the southeastern provinces on the border with Iraq and Syria. The Dutch government discourages people to go to the southeastern area of Turkey, as shown in figure 21. In addition the U.S. Department of State (2018) recommends the same about travelling to those Turkish areas and personnel of the U.S. government are not allowed to go to southeastern provinces of Turkey.

Figure 21. Travel advice Turkey (Dutch government, 2018)

So, the current situation of Turkey is problematic and there is a high probability of catastrophic events or conflicts to happen in the country due to the terrorism. It is expected that in the short term progress about the level of threat will be minimal. Mainly because the terroristic organizations PKK and ISIS are perseverant and the term of President Erdogan to be in power will probably be extended.

Impact

The impact of conflicts occurring in Turkey for the results of Company X could be major. According to Professor D. Alexander (2013) companies have a tendency to abstain from investments in conflict zones. A decrease in the willingness to invest by organizations is a result of the fact that conflict zones suffer from limited access to credit markets, infrastructure degradation, limited access to energy and fuel, underemployment ascends and trust among individuals, groups and organizations decreases.

The impact of conflicts in Turkey for Company X is the most severe in the southeastern of the country where the organization PKK is in action. Almost 80% of all incidents happen in that area of the country (Bilgel and Karahasan, 2016). According to Turkish Professor Bilgel (2016) the terrorism of the PKK impacted Turkey already as the involved regions suffered from a sharp fall in economic activities. Furthermore, according to the Professor the entire country suffered from other dynamics related to the terrorism uncertainty such as the military conscription that decreases the active population, rising uncertainty that affects the real economy, decreasing tourism and security problems. So, the impact of the terrorism goes beyond the southeastern provinces. The research of Bilgel and Karahasan (2016) estimates that Turkey could have a 14% higher GDP without the terrorism.

According to interviewee Y, the most important consequence of the occurrence of catastrophic events is the decreased willingness of Turkish farmers to invest. Turkish farmers close to the border with Syria and Iraq are very uncertain about the current situation in their region. As shown in figure

22, the central office of Company X in Turkey is located in the middle of the country near to Kayseri (red icon). The other locations on the map are service offices. The central office of Company X is not located in a danger zone and therefore it is not directly exposed to the threat of terrorism. However, there are also service offices located in the southeast of Turkey where the probability of conflicts is very high.

So, the impact of conflicts occurring in Turkey on the results of Company X is serious. The entire country suffers from the threat of terrorism. Although, the impact will be the most perceptible in the southeastern region of Turkey, where a decreased willingness to invest is a probable consequence. However, in the southeastern region of Turkey Company X only possesses service departments. The service revenue is a small part of the total revenue in Turkey and therefore at the end the impact will not be disastrous.

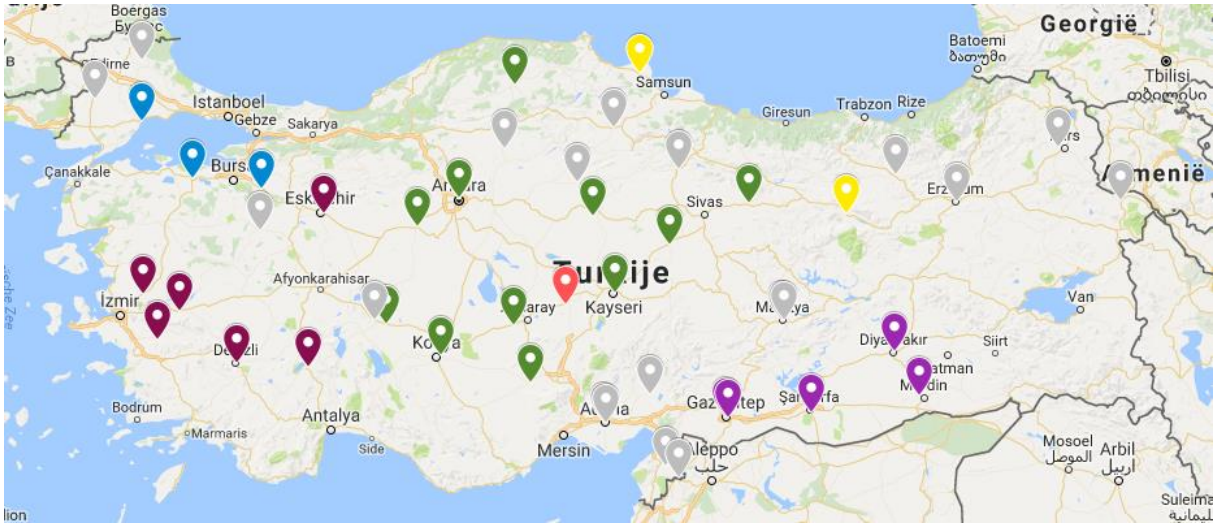


Figure 42. The locations of Company X in Turkey (Company X, 2018)

7. Further rising tensions between Turkey and Western Europe

Under the leadership of Erdogan tensions between Turkey and Western Europe countries such as The Netherlands and Germany has increased, while the country drew closer to Russia and China (International Country Risk Guide, 2017). Further rising tensions between Turkey and Western Europe can have different impacts on Western Europe companies doing business in Turkey. The willingness to import from Western Europe countries by the end-users of agricultural machinery and equipment may decrease as tensions between the countries rise. Besides, the Turkish government can make it more difficult and less favorable to import products from Western Europe countries or vice versa through trade restrictions. In addition, argued by interviewee X the chance to get an EU membership for Turkey decreases by the rising tensions with Western Europe countries. As a result high import duties will remain. Therefore the results of Company X in Turkey can be affected in an adverse way, directly as well as indirectly, through the further rising tensions between Turkey and Western Europe.

Probability

Recently Turkey clashed with several Western countries including The Netherlands and Germany. As a result of these clashes the Netherlands officially withdraws its ambassador to Turkey in February 2018. Although the Netherlands already did not had an ambassador in Turkey since March 2017

(Government of the Netherlands, 2018). Germany also had some tensions with Turkey recently. The affair of Germany as well as The Netherlands concerns the attempt of President Erdogan to have influence on the Turkish residents in both countries.

As it is expected that the term of office of President Erdogan will be extended, the chance of further rising tensions between Turkey and Western Europe countries is high, due to Erdogan's aversion to the Western Europe countries. The retain of foreign minister Cavusoglu is also a sign that Turkey's foreign policy will continue (International Country Risk Guide, 2017)**.** Furthermore, the criticism of Germany and the Netherlands on the democracy in Turkey will remain as there are no improvements in the democracy anticipated (Atradius, 2017). So, it can be expected that the rising tensions between Turkey and Western Europe countries will continue. Although rising tensions are from an economic point of view not in the interest of Turkey, as 85% percent of Turkey's foreign investments come from Western countries with The Netherlands being the main investor (Arkilic, 2018)

Impact
The impact of further rising tensions between Turkey and Western Europe countries will probably not be great for the results of Company X in Turkey.

According to interviewee Y, the tensions between the countries can rise but it would not increase the impact on companies operating in Turkey directly. Turkey still needs European countries for several themes and therefore rising tensions would not result promptly in actions applied by the Turkish government such as trade restrictions which would impact Western Europe companies operating in Turkey such as Company X. In addition, according to interviewee X, a decrease in the willingness of Turkish farmers to invest in EU-produced agricultural machinery and equipment will be minimal.

The results of the survey also clearly demonstrates that the respondents estimate the impact of further rising tensions on the results of Company X as minor. However, the turnover of Company X in 2017 decreased slightly compared to 2016. Although this decrease is not significant and furthermore it is questionable whether the decrease is a result of the rising tensions.

8. Decrease or ending of the subsidies and other incentives to stimulate the agricultural sector by the Turkish government.

For years the agricultural sector has been an important sector in the Turkish economy. Turkey has the ambition to become one of the ten largest economies in the world due to their industry and agricultural sector. In order to support the agriculture, the Turkish government has launched an incentive program (OECD, 2017). According to interviewee X the program includes several aspects such as subsidies in order to modernize assets as machinery and equipment, tax profits or getting favorable loans. The overall purpose of the program is to sustain the agriculture in the country as the population is growing and to reduce the needs of importing agricultural products. However, many factors can lead to a suddenly decrease or ending of the government support, which subsequently can lead to a decrease in the willingness to invest by the end-users.

Probability
The agricultural sector is one of the main priorities of the Turkish government for the forthcoming years of the country. Turkey has the goal to become one of the ten biggest global economies and in order to achieve that, the agricultural sector has to be the main driver (Daily Sabah, 2018). Furthermore, Turkey wants to reduce the import of agricultural products and increase the national

production of the products. Recently president Erdogan mentioned that agriculture is the start of the rise or the fall of a country (Daily Sabah, 2018). Therefore, based on Turkish interest in the agriculture a decrease or ending of the subsidies and other measures of the Turkish government to stimulate the agricultural sector is not likely to occur.

However, the government support still depends on the economic conditions of the country. According to Ramsay (2017) there remains always a risk of a changing economic situation of the country. Even without a change in the country's government, a bad performing economy could result in a decision by the government to decrease provided subsidies. Such cases happened already to a number of countries, like Spain in 2013 (Ramsay, 2017).

So, based on the Turkish drive to become a global leading economy driven by the agricultural sector it is not likely that the supporting program will decrease. However, the support provided by the governments is still dependent on the national economic situation. So, a bad performing economy could still result in a decrease of the support to the agricultural sector.

Impact

The impact of a decrease or ending of the governmental support to the agricultural sector for Company X can be significant. The governmental support to the sector is mainly advantageous for local producers and suppliers of agricultural machinery and equipment because of the discriminatory treatment. For example, suppliers of EU-produced agricultural machinery and equipment, such as Company X, have to meet strict requirements. However, according to interviewee Y, Company X is able to meet the current requirements set by the Turkish government and therefore a decrease would have a significant impact on the results of Company X.

9. Decrease or ending of the subsidies to stimulate the agricultural sector in Turkey by the EU (IPARD)

The European Union has developed the IPARD program (Pre-Accession Instrument in Agriculture and Rural development) in order to support the agricultural sector of selected countries for the period 2014-2020. Turkey has been selected by the EU as a priority area to concentrate their assistance on. The main measures to be funded with the program set by the EU are: Supporting investments in physical assets of agricultural holdings, farm diversification, business development and establishments processing and marketing agricultural and fishery products (Delegation of the EU to Turkey, 2018).

Furthermore, according to interviewee X accessing the financial support provided by the EU is only possible when the Turkish farmers use the employment of European companies. The program runs till 2020 however the follow-up of the program is still not clear. Besides an unclear continuation of the IPARD program there are many other factors that can suddenly decrease or end the IPARD program. The decision of the EU to decrease or to end the program can have major consequences for the agricultural sector of Turkey and therefore indirectly also for Company X. The willingness of the Turkish end-users to invest can decrease by the ending of the financial support and therefore it can impact the results of Company X.

Probability

The probability of a decrease or ending of the subsidy program IPARD provided by the EU to Turkey is disputable. According to interviewee X and interviewee Y it is very unlike that a decrease of the

IPARD program will occur. However, according to the opinion of the experts asked there is a big chance that the program will decrease.

The purpose of the IPARD program that runs till 2020, is to align Turkey to the structures of the EU. Originally the intention of an IPARD program is to prepare candidate countries to become a member of the European Union (European Commission, 2007). However, it is questionable whether Turkey is still a candidate membership country when the current IPARD program will end in 2020. As several developments have decreased the chance for Turkey to get a European Union membership. Recently the French president Macron stated that Turkey has no chance to join the EU (BBC, 2018). In addition, the current IPARD program is the second program, preceded by the first extensive program started in 2002 and so far there are no statements made by the European Union or signs noticed that a supporting program for Turkey will be continued.

So, it is difficult to estimate the probability of a decrease or ending of the present IPARD program. A membership of the EU for Turkey seems not feasibly in the short term. However, it is not stated yet whether the country remains a candidate membership. In addition, the results of the survey also show a mixed opinion by the respondents.

Impact

The impact of a decrease or ending of the IPARD program for the results of Company X in Turkey is major. The total support provided by the EU to the agricultural sector of Turkey so far has been extensive. In the first period (2002-2013) the total support of the IPARD program was nearly €2 billion and the second period (2013-2020) will bring a support of €800 million to Turkey (Delegation of the EU to Turkey, 2018).

Therefore a decrease or even ending of the program would result in substantial less investment possibilities of the Turkish farmers. Furthermore, in contrast to the support provided by the Turkish government stimulating the use of local producers, the IPARD program stimulates the use of EU-produced agricultural machinery and equipment. In order to get access to the IPARD support Turkish farmers must comply with the conditions set by the European Union, such as using European products or services (European Commission, 2007).

So, the support of the program contains a significant amount of money and it stimulates the use of European companies. Therefore, a decrease or ending of the IPARD program provided to Turkish farmers could have a substantial impact on the results of Company X.

6.4 Probability / impact matrix risk factors Turkey

The results of the total assessment of the risk factors identified for Company X by doing business in Turkey are visualized in the probability/impact matrix as shown in figure 23. The scores given by the experts in the survey are combined with the scores given by the interviewees. To assess the probability dimension of the risk factors, the scores of the experts and the interviewees have the same weighting. To assess the impact dimension of the risk factors, the scores of the interviewees are substantial important and therefore these scores have a weight of 70% and the scores of the respondents weigh 30%. In the case of Turkey there are six persons who gave scores to the risk factors, three of them are persons from Company X and three of them are external experts. The formula used to assess the impact dimension of the risk factors is:

*Average score interviewees * 0.7 + average score experts * 0.3*

1. Decrease in prices of agricultural products e.g. grains such as wheat and maize
2. High / rising interest rates
3. Increase in local production of agricultural machinery and equipment
4. Depreciation of the lira
5. Currency transfer restrictions
6. Catastrophic events / conflicts
7. Further rising tensions between Turkey and Western Europe
8. Decrease or ending of the subsidies and other incentives to stimulate the agricultural sector by the Turkish government
9. Decrease or ending of the subsidies to stimulate the agricultural sector in Turkey by the EU (IPARD)

Figure 23. Probability / impact matrix risk factors Turkey based on the survey and interviews

Adjustments

The results showed in the probability/impact matrix in figure 23 do not take into account the assessment of the data from the documentation review. However, the results from the documentation review provide additional useful information to assess the risk factors that should be considered. The documentation review includes information from well known risk agencies such as the International Country Risk Guide, Euler Hermes, Economist Intelligence Unit, A.M. Best, Coface, Atradius, but also documentations from worldwide organizations such as The World Bank and The International Monetary Fund.

The probability/impact matrix in figure 24 shows the assessment of the risk factors based on the documentation review. Although the assessment of the documentation review estimates most of the risk factors approximately the same, it also reveals some essential differences. The risk factors 1, 2 and 5 are assessed different. The exposure of risk factors 1 and 2 based on the documentation review is slightly lower than the exposure based on the survey and the exposure of risk factor 5 is has shifted. Furthermore, the degree of the exposure of the risk factors based on the documentation review is in general less high than the degree of the exposure based on the survey.

So, both matrixes show a clear view of the risk factors with the highest exposure and most risk factors have in both matrixes approximately the same exposure. However, in order to get a total view of the exposure of the risk factors, the matrix based on the documentation review should be considered the most as it is based on several professional reports by established organizations.

1. Decrease in prices of agricultural products e.g. grains such as wheat and maize
2. High / rising interest rates
3. Increase in local production of agricultural machinery and equipment
4. Depreciation of the lira
5. Currency transfer restrictions
6. Catastrophic events / conflicts
7. Further rising tensions between Turkey and Western Europe
8. Decrease or ending of the subsidies and other incentives to stimulate the agricultural sector by the Turkish government
9. Decrease or ending of the subsidies to stimulate the agricultural sector in Turkey by the EU (IPARD)

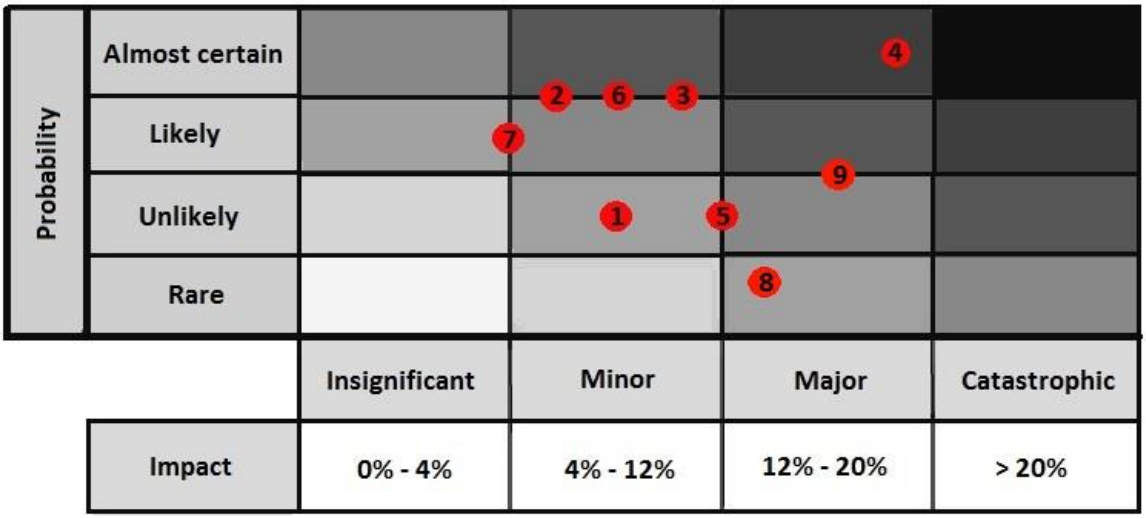


Figure 24. Probability / impact matrix risk factors Turkey based on the documentation review

6.5 Recommendations

Company X is exposed to a wide range of country specific risks by doing business in Turkey. Ideally, the probability and the impact of these risk factors are minimized so that the exposure of Company X in Turkey to those risks is minimal. However, not all the risks are manageable and the company should not try to manage them as the benefit of managing the risk is not worth the effort. Therefore, in this chapter recommendations are given for Company X about the best way to manage the risk exposure of the company in Turkey.

In order to recommend an effective risk management strategy, it is essential to determine the risk appetite to maintain. It is recommended for Company X to keep a high risk appetite in the case of Turkey. The main reason for a high risk appetite is the share of the turnover gained in Turkey to the total results of Company X. The turnover achieved in Turkey was € X million in 2017 and the total turnover of Company X in the same year was € X million. So the contribution of the division operating in Turkey is almost insignificant. Whereas the total risk exposure for Company X in Turkey is relatively high.

Depreciation of the lira

In order to manage the risk exposure of Company X in Turkey, the most important risk factor to consider is a depreciation of the lira. A further depreciation of the Turkish lira would expose Company X to transaction risk as well as economic risk. The transaction risk can easily be controlled by hedging the lira. However, due to the high volatility of the Turkish lira, it is currently very costly to hedge the currency (Bloomberg, 2016). Hedging the transaction risk is not attractive for Company X as their turnover in Turkey is relatively low. Therefore, the high costs of hedging the risk do not outweigh the benefits.

In addition, the economic risk is even more difficult to manage. If Company X does not adjust the prices of their products offered in liras to the value in euros, the profit margin will be under pressure. However, if Company X maintains the prices of the machinery and equipment in euro's the willingness of the Turkish farmers will decrease due to an unfavorable purchasing power. So, both handlings could have unfavorable consequences.

So, although the exposure of a depreciation of the lira is very high, it is not easy to manage the risk. It is recommended for Company X to accept the risk because the costs of managing the currency risk are very high while the turnover of the company is not high enough yet. Furthermore, the economic risk of a depreciated lira should be accepted first to see to what extend the unfavorable purchasing power will lead to less turnover for Company X.

Correlation between the risk factors

So, a depreciation of the lira is the most important risk factor for Company X in Turkey and the exposure of the other identified risk factors is not alarming. Although the risk factors should not be considered completely independent, as some risk factors are related to each other to a certain extent.

The failed military coup in July 2016 demonstrated that catastrophic events in Turkey affect the national currency, as the lira decreased further after the attempt to remove President Erdogan from his power. Subsequently, a depreciation of the lira could increase the probability of rising interest rates in the country as the historical data show a correlation between the two risk factors. A

depreciation of the lira could also increase the chance of currency restrictions implemented by the government in order to strengthen the national currency. Furthermore, the continuation of the government support to the agricultural sector of Turkey still depends on the economic conditions of the country. A depreciation of the lira could have a major impact on Turkey's economy and so it could increase the probability of a decreased stimulating program by the Turkish government for the agricultural sector.

In addition, it could be reasonable that the risks of further rising tensions between Turkey and Western Europe and the agricultural subsidies provided by the EU to Turkey are related to each other to a certain extent. The occurrence of further rising tensions between the countries could result in a bigger chance of a decrease in the agricultural support by the EU.

So, to assess the total risk exposure of Company X by doing business in Turkey it should be considered that some risk factors are related to each other to a certain extent. In particular, the risk of a depreciated lira could influence several other risk factors.

Total recommendations Turkey

It is recommendable for Company X to closely monitor the country's developments, especially the fluctuation of the lira, in order to consider whether the operations in Turkey should proceed. A depreciation of the lira is not simply the risk factor with the highest exposure, but it is also related to other risk factors as it increases the probability of other risk factors to occur.

There are many relatively high risk factors for Company X that could affect the results by doing business in Turkey and managing them is mostly difficult or costly. Therefore, if the degree of the country's risk factors does not diminish the coming years or the size of the turnover of Company X in Turkey does not increase, it is recommended to consider the continuation of the company's operations in Turkey. The high degree of risk exposure Company X faces in Turkey in combination with the relatively low size of turnover in the country could make it unfavorable to continue the operations in Turkey.

7. Results Kazakhstan

Introduction

This chapter presents the results of the research conducted for Company X by operating in Kazakhstan. The chapter starts with a short introduction of Kazakhstan. Thereafter the results are presented starting first with the list of risk factors identified for Company X by doing business in Kazakhstan with a brief description, divided into the three categories of risks. Subsequently, each risk factor will be described in detail. Next, the degree of probability that the risk factor will occur and the impact the risk factor might have if it occurs are presented for each risk factor. After the results of all the risk factors are presented and reviewed, the degree of all the risk factors are presented in the probability / impact matrix. The matrix clearly demonstrates an overview of the most significant risks to control based on the probability to occur and the potential impact. Finally, the chapter ends with recommendations about the best way to manage the risk exposure for Company X in Kazakhstan.

The risk factors are identified based on the documentation review of internal reports of Company X, external country reports and government reports including the World Bank and the interviews with the manager and the director of the Kazakh subsidiaries of Company X. Thereafter the measurement of the probability and the impact of the risk factors is based on the results of the survey spread to experts with knowledge of Kazakhstan combined with the results of the survey filled in by the manager and the director and the information from the documentation reviews. In total 44 experts with specific knowledge of Kazakhstan are asked by e-mail to fill in the survey in order to measure the identified risks. Among these experts are country experts of Dutch banks such as Rabobank, associates of the Dutch embassy in Kazakhstan, associates of the Kazakh embassy in the Netherlands, experts from the Dutch Ministry of Foreign Affairs, associates of the Dutch agriculture council in Kazakhstan, experts of the National service Entrepreneurial the Netherlands, country experts of Dutch multinational corporations operating in Kazakhstan and the Dutch honorary consul in Kazakhstan. Finally there is a response of nine. The interview guideline (Appendix V) as well as the survey (Appendix VI) and the total results of the survey (Appendix VII) can be found in the appendices.

7.1 Introduction of Kazakhstan

The Republic of Kazakhstan is a landlocked country in Central Asia (FAO, 2017). The country has a land area similar to Western Europe, although it has one the lowest population density around the world (The World Bank, 2017). In 1991 Kazakhstan became an independent Republic after the separation of the Soviet Union. Thereafter the stabilization of the national economy as well as the transition to a market economy have been the main economic challenges of Kazakhstan. The country is rich in mineral sources and oil which ensured steady economic growth since 2000 (FAO, 2017). In less than two decades Kazakhstan has transitioned to an upper-middle income status (The World Bank, 2017).

The agricultural sector is still an important factor of the economic development of the country, although the agricultural contribution to GDP has declined. The sector has been affected by several events during the transition to a market economy, such as economic shocks, land reform and reductions in public support (FAO, 2017). The agriculture of Kazakhstan still struggles with structural challenges that limit the potential to growth such as limited access to credit and outdated machinery (FAO, 2017).

Company X has been active in Kazakhstan since 2014. As shown in figure 25 the results of the company in Kazakhstan are impressive. The turnover of 2017 increased with 43% compared to the turnover in 2014. In the light of these figures, it seems there are no risks negatively influencing the results of Company X in Kazakhstan. However, there are still potential risk factors that could have a significant impact on the results of the company. Therefore, these risk factors are investigated.

2014	2015	2016	2017
X	X	X	X

Figure 25. Turnover of Company X in Kazakhstan (Company X, 2018)

7.2 Risk factors for Company X by doing business in Kazakhstan

Economic

1. **Decrease in prices of agricultural products e.g. grains such as wheat**

End-users of the products distributed by Company X can be affected by fluctuations in agricultural products prices. A decrease in the prices of agricultural products can decrease their willingness to invest.

2. **Increase in local production/assembly of agricultural machinery and equipment**

More local production and assembly of agricultural machinery and equipment can cause less need for Kazakhstan to import those machinery and equipment.

3. **Further cooperation on agricultural development between Kazakhstan and China**

In 2017 Kazakhstan and China agreed to invest in the agricultural sector of Kazakhstan in order to develop the sector and increase production. The investment of China can lead to less import of agricultural machinery and equipment by Kazakhstani end-users.

4. **High / rising interest rates**

High interest rates imply that acquiring financial resources is costly for end-users in Kazakhstan and therefore their willingness to invest can decrease.

Financial / currency exchange

5. **Depreciation of the tenge**

A depreciation of the national currency, the tenge, can decrease the willingness of the end-users to import machinery and equipment.

6. **Currency transfer restrictions**

To stimulate the use of the national currency, the government can make restrictions on the amount of foreign currency that may be imported or exported.

Political

7. **Continuing legal and institutional failings**

A high degree of corruption, a low degree of government effectiveness, a weak rule of law and heavy bureaucracy can have the potential to cause problems for foreign companies such as Company X.

8. **Political instability/conflicts if Nazarbayev (77) has to stop or is not able to continue**

The political stability may easily be shaken by Nazarbayev's unexpected presidential end. Political instability or other political developments can have major consequences.

9. **Catastrophic events / conflicts**

National – and international conflicts such as a civil war, coup threat, terrorism, wars or cross-border conflicts can affect the whole economy of the country which makes conditions for foreign companies less favorable. Those events can also directly affect the locations of Company X in the country.

10. **Decrease or ending of the subsidies and other incentives to stimulate the agricultural sector by the Kazakh government**

Kazakhstani end-users can be affected by a decrease or ending of the government program to support the agricultural sector of Kazakhstan, which subsequently can lead to a decrease in the willingness to invest by the end-users.

7.3 Description and measurement of the risk factors

Economic

1. Decrease in prices of agricultural products such wheat.

The risk factor of a decrease in the prices of agricultural products involves the worldwide prices, so the exposure of the factor is the same for Kazakhstan as well as Turkey. Therefore the analysis of this risk factor in Kazakhstan is referred to the description and measurement of the risk factor discussed in the case of Turkey.

Although the analysis of this risk factor is referred to the case of Turkey, there are also some specific remarks for the case of Kazakhstan. In the case of Kazakhstan the agricultural products involves mainly wheat and to a lesser extent maize. Furthermore, the results of the survey of Kazakhstan are different from the results of the survey of Turkey. The respondents of Kazakhstan estimate the probability of a decrease in the price of wheat as unlikely. So, the results of the survey match the results of the assessment by the documentation review in contrast to the case of Turkey. Regarding to the impact of a decrease in the prices of wheat, there is not a relationship between the decreased price of wheat and the turnover of Company X in Kazakhstan. Although the respondents of the survey assess the impact of the risk factor as major. Just as in the case of Turkey, none of the respondents explained their opinion but it could be feasible that the respondents were not aware about the historical data.

2. Increase in local production/assembly of agricultural machinery and equipment.

The agricultural sector of Kazakhstan is to a high degree dependent on the import of agricultural machinery and equipment. The local production of agricultural machinery and equipment in Kazakhstan is insignificant and therefore the country is dependent to the range of products offered by companies mainly from Germany, Canada and The Netherlands (The U.S. Department of Commerce's International Trade Administration, 2016). An increase in the local production of the agricultural machinery and equipment may result in less need for the Kazakhstani end-users to import the products. Subsequently, a decrease in the need to import agricultural machinery and equipment may affect the willingness of the Kazakhstani end-users to import those products. A decrease in the willingness to import the agricultural machinery and equipment can have a negative effect on the results of Company X. As a result, an increase in the local production can indirectly affect the results of Company X in Kazakhstan.

Probability

The local production of agricultural machinery and equipment in Kazakhstan is insignificant and therefore the country is dependent to foreign manufacturers of the machinery and equipment. Due to their dependency, the country is convinced that the foreign manufacturers make prices of the machinery and equipment unreasonable (Kazakh Zerno, 2016). Therefore Kazakhstan has set goals to increase the local production of agricultural machinery and equipment in order to reduce the dependency of the country (The U.S. Department of Commerce's International Trade Administration, 2016).

The goal set by the Deputy Minister of Agriculture Kairat Aituganov is that Kazakhstan has to manufacture 43% of the required agricultural machinery by 2021. In order to reach their goal, Kazakhstan implemented its 'Roadmap for agricultural machinery building industry development' in

2017 (Government of the Republic of Kazakhstan, 2017). The Kazakh government has signed agreements with the major agricultural state-owned holdings to obtain their commitment in order to raise the local production. Furthermore, the subsidization program for the agricultural sector has changed in order to improve the local production. The subsidy that Kazakh farmers can obtain is a fixed amount based on the price of agricultural machinery produced by domestic manufacturers. The focus of the leasing profits for Kazakh farmers changed towards the benefits of domestic made machinery, by providing the machinery lease first to farmers using the domestic made machinery (Government of the Republic of Kazakhstan, 2017). Furthermore according to interviewee Z, the membership of Kazakhstan in the EEU (Eurasian Economic Union) since January 2015 can contribute to a stimulation of the local production of agricultural machinery and equipment. The U.S. Department of Commerce's International Trade Administration also recognizes the consequence of the Kazakh membership to the EEU. According to the organization an increase in the local production of agricultural machinery and equipment is expected as a result of the country's entering to the EEU. However, despite all the developments to stimulate the local production of agricultural machinery and equipment in recent years, the results so far are meaningless (U.S. Department of Commerce's International Trade Administration, 2016)

So, due to the dependency of Kazakhstan to foreign manufacturers of agricultural machinery and equipment the country has made plans. The ambitious plan of the Kazakh government to increase the local production of agricultural machinery and equipment and the membership of the country into the EEU make an increase in the next years likely. Although to date, progress has been insignificant. In addition, given the fact that Kazakhstan has almost no experience with producing agricultural machinery and equipment it is questionable whether the local production will increase as the Kazakh government has planned.

Impact

An increase in the local production of agricultural machinery and equipment in Kazakhstan could have an impact on the results of Company X. However, the immediately impact will probably not be significant.

Argued by interviewee Z the machinery produced by Kazakh manufacturers will not have the same technical properties as the machinery and equipment provided by Western Europe companies such as Company X, due to the lack of experience and the specific technical expertise. In addition, interviewee Z argues that the technical service provided during the machinery's lifetime is an essential part. Therefore, the agricultural machinery and equipment produced by the Kazakh manufacturers will serve the lower segment of the market and so it will mainly not substitute the machinery provided by Company X in Kazakhstan.

Furthermore, according to Hermann Lohbeck (2017) farmers are looking for new technology in order to improve their efficiency and this is especially the case for Kazakhstan. The country requires new agricultural machinery as almost 80% of the agricultural machinery is outdated and needs to be replaced (Ministry of Agriculture of Republic of Kazakhstan, 2017).

So, an increase in the local production of agricultural machinery and equipment is not expected to have a major impact on the results of Company X in Kazakhstan. The local produced machinery and equipment do not have the same properties as the manufacturers lack the technical expertise and

experience. In addition farmers are seeking new technologies, which is especially the case for Kazakhstan.

3. Further cooperation on agricultural development between Kazakhstan and China.

In order to increase the agricultural sector of the country, Kazakhstan strives to attract investors (A.M. Best, 2017). As a result Kazakhstan is turning more towards China to obtain their developmental needs. The main driver for China to invest in Kazakhstan is to develop the 'Belt and Road initiative' and to provide the country's increased need for agricultural products (Société Générale, 2018). Therefore in 2017 Kazakhstan and China agreed to invest in the agricultural sector of Kazakhstan in order to develop the sector and to increase the production. Chinese companies are ready to invest in processing of the agricultural products in Kazakhstan. Besides, Kazakhstan and China are identifying a further cooperation to set up plants in order to produce agricultural machinery and equipment in Kazakhstan (Embassy of the Kingdom of the Netherlands, 2017). The investment of China in the agricultural sector of Kazakhstan can lead to less import of machinery and equipment by Kazakhstani end-users from Western Europe countries such as Company X, due to a decreased need. Conclusively, a further cooperation between Kazakhstan and China to develop the agricultural sector of Kazakhstan can indirectly have an adverse effect on Company X. A decrease in the willingness and the need to import agricultural machinery and equipment can affect the results of Company X in Kazakhstan.

Probability

The agreement of Kazakhstan and China to cooperate in the Belt and Road initiative results in significant investments of China in the agricultural sector of Kazakhstan. Furthermore, China's increased need for agricultural products as a result of the growing population drives more investments by the country in Kazakhstan. Moreover, president Nazarbayev is an enthusiastic supporter of the Belt and Road initiative as China promises to serve Kazakhstan's commercial interest for the long term (International Country Risk Guide, 2017). So, both countries have an interest in a further cooperation.

In addition, according to reports of the (Embassy of the Kingdom of the Netherlands, 2017)**,** the agricultural sector of Kazakhstan needs more investments. Although the Kazakh economy was backed by the agricultural sector in 2016, the investments in the sector remain low. The agricultural sector of Kazakhstan still experiences a deficit of investment support (Embassy of the Kingdom of the Netherlands, 2017). China is already one of the largest investors in Kazakhstan and they are even ready to increase the investments. According to the Kazakh government and the Dutch government, Chinese companies are ready to cooperate with Kazakhstan in order to set up plants in Kazakhstan for agricultural machinery and equipment (Embassy of the Kingdom of the Netherlands, 2017; Kazakh tv, 2018)

Based on those developments both countries are interested in further cooperation and therefore the probability to occur is high. However, cooperation with China also brings along some risks for Kazakhstan. Many Kazakhs do not agree an extensive cooperation with China as they believe that China would turn Kazakhstan into a Chinese colony if they get a chance, resulting in demonstrations (nternational Country Risk Guide, 2017).

So, although the Kazakh population is worried about the cooperation with China, given the conditions it can be expected that a further cooperation between Kazakhstan and China will happen.

Both countries recognize the benefit of increased cooperation. In addition, the respondents of the survey also estimate the probability of a further cooperation as likely to happen.

Impact

The impact of a further cooperation on the agricultural sector between Kazakhstan and China is disputable. According to interviewee Z an increased cooperation between the countries will not decrease the need for agricultural machinery and equipment offered by Western Europe companies such as Company X. The aversion of Kazakh people to Chinese interventions is according to interviewee Z an important reason that the cooperation between the countries will have an insignificant impact. Furthermore, the additional services provided by Company X during the lifetime of the machinery and equipment is indispensable argued by interviewee Z.

In addition, 2017, the year that Kazakhstan and China agreed to invest in the agricultural sector of Kazakhstan was still a good year for Company X. Finally, the respondents of the survey agree with the opinion of interviewee Z, as the results of the survey almost unanimously show that the impact of a further cooperation between Kazakhstan and China will have an insignificant impact.

So, given the Kazakhs aversion to Chinese interventions, the indispensable service and the fact that the results of Company X in Kazakhstan still increase despite the agreement of Kazakhstan and China it is conceivable that the impact will be minor. However, as the countries agreed recently to cooperate and an extension of the cooperation is anticipated, the impact of a further cooperation on the agricultural development in Kazakhstan on the results of Company X could increase.

4. High / rising interest rates

An end-users decision to purchase machinery and equipment is dependent on the ability of the end-user to finance these purchases. Interest rate costs are a significant component of the financing costs in order to acquire financial resources (Company X, 2016)**.** Volatility in the credit markets can make it more difficult for the end-users to obtain finance and the costs of getting financial resources increase if interest rates rise. Argued by interviewee X, 'in general, a rise in interest rates discourages investments'.

Therefore, increases in interest rates can make the purchase of machinery and equipment less affordable for end-users. Subsequently, the willingness to invest by the Kazakhstani end-users may decrease. A decrease in the willingness to invest may have an adverse effect on the results of Company X. Conclusively the results of Company X are indirectly affected by rising interest rates in Kazakhstan.

Probability

The current interest rate in Kazakhstan is 9,25%. As shown in figure 26, the rate declined the last two years after it peaked in 2016. The decline of the interest rate is among others caused by a stabilized currency which tame inflation and the monetary policy set by the National Bank of Kazakhstan implementing anti-crisis measures (International Country Risk Guide, 2017).

The National Bank of Kazakhstan has the primary objective to ensure price stability in the national economy. In August 2015 the National Bank shifted to an inflation targeting regime in order to control a low inflation rate. The National Bank has set the following inflation targets:

- 5-7% at the end of 2018
- 4-6% at the end of 2019
- Below 4% at the end of 2020 and thereafter

Figure 26. Interest rate fluctuations in Kazakhstan (The National Bank of Kazakhstan, 2018)

In order to achieve the formulated inflation rates, the National Bank regulates the interest rates by setting a base rate. According to National Bank of Kazakhstan (2018) base rates affect the inflation rate, as an increase in the interest rate causes a decrease on the national inflation. However, meanwhile the Bank recognizes that an increase in the base rate results in fewer investments and more savings. Therefore the policy of the National Bank is aimed at keeping a balance between the price stability and supporting economic growth. The bank stated that it would continue gradually reducing the base rate while assuring that the neutral monetary policies are maintained (National Bank of Kazakhstan, 2018). The National Bank stated it in the spring of 2018 while it already reduced the base rate for three times in 2018. Analysts were surprised about the last cuts, where they expected the rate to be maintained (FocusEconomics, 2018).

The analysts of FocusEconomics expect the base interest rate to decrease further ending at 9.17% in 2018 and at a rate of 8.39% in 2019. According to the forecast of Trading Economics (TradingEconomics, 2018) the interest rate in Kazakhstan will even further decrease to 8.5% at the end of 2018 and 6.5 at the end of 2020. However the results of the survey are salient as the respondents mainly estimate the probability of rising interest rates as likely to happen.

So, based on the policy of the National Bank of Kazakhstan and their statement to continue gradually reducing the base rate it can be expected that the interest rates in Kazakhstan decrease. Furthermore analysts also forecast a continued decrease in the Kazakh interest rates. However, as the National Bank meanwhile wants to ensure price stability and control a low national inflation rate it is anticipated that the base rate will not decrease significant.

Impact

Kazakh farmers can get credits by several sources such as commercial bands and private sources. However, the most favorable way for Kazakh farmers to obtain credits is through the subsidized loans from KazAgro. In order to support the agriculture sector, the Kazakh government provides favorable loans through KazAgro (The World Bank, 2016). Agricultural companies with export potentials are able to get favorable loans from the Kazakh government with reduced interest rates.

These loans have a reduced interest rate of 8% and farmers can use it for the procurement of fixed assets in order to modernize their assets (The Kazakh government, 2017).

So although high interest rates in general discourage investments, the Kazakh farmers can obtain favorable loans provided by the government and therefore their investment abilities are not affected by high interest rates. Hence, the impact of high interest rates on the results of Company X is anticipated to be minor as long as the Kazakh farmers are able to get favorable loans.

Financial / currency exchange

5. Depreciation of the tenge

A depreciation of the Kazakhstani national currency, the tenge, may have several major consequences for the end-users as well as Company X.

According to interviewee Z Company X mainly avoids the use of the Kazakh tenge by offering their agricultural machinery and equipment to Kazakhstani end-users in Euro's. Therefore the company is not directly affected by fluctuations in the value of the tenge. However, the Kazakhstani end-users have to pay in a foreign currency and hence they have to convert their tenge into the concerning currency.

The Kazakhstani end-users are directly affected by fluctuations of the tenge. In general, a weaker domestic currency stimulates exports and discourages imports (Credendo, 2015). A decline in the value of the tenge makes exports for Kazakhstani companies more competitive but it makes imports more expensive. That means that, although prices of the machinery and equipment offered by Company X do not change, Kazakh end-users have to pay more tenge. So, argued by interviewee Z the purchasing power of Kazakh end-users, using the national currency, becomes unfavorable. Therefore a decline in the value of the tenge may decrease the willingness of the end-users to import machinery and equipment from abroad where they have to use a different currency. As a result, Company X is indirectly affected by a depreciation of the Kazakh tenge which could have an adverse effect on the company.

Probability

The value of the tenge is at a historical low level. After two extensive devaluations of the currency in 2009 and 2014 the Kazakh government let the tenge free from the peg to the U.S. dollar in 2015 (Euler Hermes Economic Research, 2017). After the depreciation in 2014, the level of the tenge recovered in a short time to the old value and it stabilized due to the relation to the U.S. dollar. However, after the Kazakh measure to abolish the peg with the U.S. dollar the value of the tenge decreased extremely, losing 60% of its value (Government of the United Kingdom, 2017).

Figure 27. Fluctuations of the tenge to euro (XE, 2018)

As shown in figure 27, the tenge did not recover from the extensive devaluation in 2015. The currency became volatile due to a high degree of dependency on external factors. The most important factor influencing the value of the tenge is the global price movement of oil. In addition the domestic production of energy, the performance of the Russian ruble and the current account deficit are factors influencing the tenge.

The economy of Kazakhstan is to a high degree dependent to oil, as the commodity is responsible for almost 80% of the country's income (Tengri News, 2015). However the value of the tenge is not completely dependent on the global oil prices as already experienced in 2017. In that year the tenge has been depreciating despite the oil price recovery (The World Bank, 2017).

Although oil prices are anticipated to rise, according to the Economic Intelligence Unit (2018) the tenge is expected to depreciate slightly till 2020 mainly caused by a weak Russian rouble succeeded by an appreciation period. In addition also the respondents of the survey unanimously expect the tenge to depreciate. However other forecasts predict a slightly appreciation of the Kazakh tenge. According to the forecast of Euler Hermes (2017) the tenge will profit from strong exports and investment inflows, although it is admitted that the currency will remain volatile. Also the forecast of the Trading Economics (2018) indicates a slightly appreciation of the tenge, beginning from the third quarter of 2018. So, the probability of a further decrease in the value of the Kazakh tenge is disputable. The opinions from analysts are dissimilar.

Impact

Since being active in Kazakhstan, Company X has already been hit by a depreciation of the tenge for two times. The first depreciation, in 2014, was a short depression of which the tenge recovered almost directly. The second deprecation however, in 2015, was a serious decrease in the value of the tenge from which the Kazakh currency until today did not recover.

According to interviewee Z, Company X offers its machinery and equipment to Kazakh clients in euro's, avoiding mainly the use of the Kazakh tenge. A depreciation of the tenge will therefore not affect the results of Company X directly, according to Eun et al. (2012) stated as the transaction risk of foreign exchange risk. However, argued by interviewee Z, a depreciation of the tenge still impacts the results of Company X because the Kazakh farmers look pessimistic towards new investments due to a depreciated currency. Because the Kazakh farmers have to purchase the machinery and equipment of Company X by using the euro, their purchasing power becomes unfavorable in case of a depreciated tenge. In addition, according to a research conducted by the Dutch Embassy in Kazakhstan about the business challenges and perspectives (2017), Dutch companies operating in Kazakhstan marked currency instability by far as the main problem by doing business in Kazakhstan. Finally, the respondents of the survey also see the risk of a further depreciated tenge as a factor with a major impact.

Adversely, the results of Company X in Kazakhstan of the last years increased constantly, while the Kazakh tenge experienced significant depreciations two times. As shown in figure 25, the turnover of Company X in 2015 even increased with 20% compared to the year before despite the serious depreciated tenge. Furthermore, the results of 2017 also showed a significant increase compared to the results of 2016.

So, based on the opinion and the experience of the interviewee, the unfavorable purchasing power of Kazakh farmers and the results of the survey the impact of a depreciation of the Kazakh tenge for the results of Company X could be assessed as major. However, the results of Company X in Kazakhstan show a completely different view with a constant substantial growth in the turnover, despite the depreciations of the tenge and the steady low value of the currency. Therefore, it can be concluded that the impact of a depreciation in the tenge on the results of Company X is not significant.

6. Currency transfer restrictions

The government of a country can make restrictions on the use of foreign currencies by implementing exchange controls such as banning the use of foreign currency, banning the possession of foreign currency or restrictions on the amount of a foreign currency that can be imported or exported. Kazakhstan joined the agreements of Article 8 of the International Monetary Fund Charter in 1996. This agreement caused for full convertibility and the removal of all controls on current account transactions (The U.S. Department of Commerce's International Trade Administration, 2016).

Restrictions on the use of a foreign currency directly affect the end-users as well as Company X as both will be forced to use the Kazakh tenge. As a result the willingness to invest by end-users can decrease, because they will be required to invest by means of the Kazakh tenge, which can be much more expensive due to higher interest rates. Furthermore by using the tenge, Company X is directly exposed to the risk of fluctuations in the value of the currency.

Probability

The Kazakh tenge, controlled by the National Bank of Kazakhstan, is fully convertible to other currencies. In 1996 Kazakhstan joined Article 8 of the International Monetary Fund Charter, resulting in completely convertibility and the elimination of all other controls on account transactions (The U.S. Department of Commerce's International Trade Administration, 2018).

According to interviewee Z, since Kazakhstan joined the IMF Charter there have been no signs of any implementation of currency restrictions and it is very unlikely to happen. Although there are a lot of restrictions in similar countries such as Uzbekistan, it is not the case for Kazakhstan. Furthermore, argued by interviewee Z, the country strives to more foreign investors and therefore the implementation of currency restrictions would not be comprehensible. According to Omarov (2018) Kazakhstan is improving its investment climate in order to increase foreign direct investments into the country. Therefore Omarov argues it is important to attract investors with comfortable conditions including economic and political stability. On the other hand, a weak national currency and a bad performing banking system could be reasons for the Kazakh government to implement some restrictions (Economist Intelligence Unit, 2017). The results of the survey show a mixed opinion about the probability of currency restrictions to happen.

So, although the Kazakh government could have some reasons to think about the implementation of currency restrictions and the respondents have mixed opinions there have been no signs of restrictions to happen. Furthermore, as the country has a strong interest in gaining foreign investments it is not likely that some currency restrictions will be implemented.

Impact

Currency restrictions set by the Kazakh government could have different consequences for Company X, dependent on the type of restriction to implement.

Company X mainly avoids the use of the Kazakh tenge, due to the fact that the machinery and equipment are provided in euro. Therefore, many restrictions such as the banning of foreign currencies could have major impacts on the results of Company X. However, as Company X offers its products in euro to the Kazakh clients, the company does not have to convert tenge into euro. A restriction on the conversion of foreign currencies will therefore not have an impact on Company X. According to interviewee Z, the impact of currency restrictions on the result of Company X will be minor, while the results of the survey show a mixed opinion.

So, the impact of currency restrictions made by the Kazakh government will vary depending on the type of restriction to implement. Although interviewee Z estimates a low impact and some respondents also estimate a minor impact, a few currency restrictions could have certainly a significant impact on the results of Company X.

Political

7. Continuing legal and institutional failings

Kazakhstan suffers from a high degree of corruption, heavy bureaucracy and a weak rule of law (A.M. Best, 2017). Shadow economies are estimated at more than 15% of Kazakhstan's GDP (Schneider Group, 2017). Corruption and heavy bureaucracy can cause administrative delays and obstacles to trade**.** This may reduce the workable days of Company X in Kazakhstan. A reduction of the workable days can reduce the results of the company as it can lead to lower revenues due to inability to perform. Furthermore poor protection of the government due to a weak rule of law can have the potential to cause major problems for companies. Therefore continuation of the country legal and institutional failings may have several consequences to affect the results of Company X by doing business in Kazakhstan.

Probability

In 2015 the Kazakh government launched the 100 Steps program in order to improve the business climate of the country. The program includes efforts such as implementing the British law for commercial disputes and a focus on civil reform to fight corruption (The PRS Group, 2017). In addition, the 100 steps program also includes improving the public service delivery (The World Bank, 2017).

However, to date progress has been insignificant as Kazakhstan ranked 122 in the Transparency International corruption index of 2017 compared to a rank of 123 in the index of 2015. Furthermore, although the efforts of the program, the power of the government is still tightly controlled by president Nazarbayev, who can limit institutional effectiveness (A.M. Best, 2017). According to the research of (O'Neill, 2014), corruption is the cost of doing business in Kazakhstan. The Dutch Embassy stated furthermore in their research to the business challenges and perspectives in Kazakhstan (2017) that corruption is still a common problem despite measures to mitigate it. Interviewee Z also recognizes the effort of the Kazakh government, however he argues that there is still a long way to go. Finally, the results of the survey show also a pessimistic view about the country's improvements.

So despite the program of the Kazakh government to improve the country's legal and institutional failings no any progress is made since 2015. Furthermore, several reports and studies show a pessimistic view about improvements. Therefore it can be expected that legal and institutional failings continue.

Impact

The impact of continuing legal and institutional failings including a high degree of corruption, heavy bureaucracy and a weak rule of law for the results of Company X in Kazakhstan is not large.

According to interviewee Z Company X is doing business almost entirely with private entities and therefore the company did not experience extensive cases of corruption so far or suffered from heavy bureaucracy. Furthermore Company X has implemented a zero tolerance policy in Kazakhstan. The rate of turnover Company X loses due to a zero tolerance policy is insignificant because it is a commonly used policy in the branch. The results of Company X in Kazakhstan confirm an insignificant impact of legal and institutional failings.

So, although the presence of a high degree of corruption, heavy bureaucracy and a weak rule of law in Kazakhstan, it does not impact the results of Company X in the country. Due to the fact that the

company is doing business mainly with private entities and the implementation of a zero tolerance policy, the impact on Company X is insignificant.

8. Political instability/conflicts if Nazarbayev (77) has to stop or is not able to continue.

For more than two decades current president Nursultan Nazarbayev has been in office. Since 1989 Nazarbayev has led Kazakhstan (Coface, 2018). The president has been the sole leader of independent Kazakhstan from the separation of the Soviet Union. Although the country has a democratic form, the power of Nazarbayev is extensive, including the power of the parliament and the national economy. However, the president's age will be 78 in 2018 and he has not announced whether he will be eligible in 2019 (Economist Intelligence Unit, 2017).

So, by having all the power, the political stability of the country may be easily shaken by a suddenly or unexpected end of the presidential domination of Nazarbayev. The transfer of the power can end up problematic. The political instability or other political developments can have several major consequences affecting the whole country including the agricultural sector of Kazakhstan and foreign companies operating in the country. So the results of Company X in Kazakhstan may be directly as well as indirectly affected by political instability due to the succession of president Nazarbayev.

Probability

Kazakhstan's future without Nazarbayev is an uncertain chapter. In 27 years independency of the Soviet Union, there are no conditions created for a democratic transition in Kazakhstan to succeed president Nazarbayev. This seems to cause the mixed opinions from the respondents. According to interviewee Z everyone in Kazakhstan is uncertain about how and when a new president will be installed and what the consequences will be. Also risk rating agencies (ICRG, 2017; Best's country report 2017; Risk advisory 2017) are uncertain about the resignation of president Nazarbayev and the consequences.

There are examples of similar countries of the former Soviet region such as Ukraine and Georgia who have had big problems with the installation of new presidents. However, Turkmenistan and Uzbekistan are countries who have survived the unexpected death of their leaders without problems. Whereas experts feared breakdowns and chaos in the repressive countries (Stykow, 2018).

Kazakhstan is seeking to attract foreign investors (Omarov, 2018). Therefore the country has made several attempts to improve the business climate. However, it could be reasonable that also without the presence of president Nazarbayev, Kazakhstan still strives to increase the foreign investments.

So, the probability of conflicts occurring as president Nazarbayev will be succeeded is a subject of speculation. In the recent history there are examples of countries with conflicts, but there are also countries without any problems.

Impact

The occurrence of political instability or conflicts in Kazakhstan due to a discontinuation of Nazarbayev can have major impacts for Company X operating in the country. However, it is almost impossible to estimate the impact of conflicts occurring due to the installation of a new president or government. The consequences for foreign companies could vary extremely. Although, the installation of a new president / government could also go without problems, which was the case in Turkmenistan and Uzbekistan.

According to interviewee Z the potential impact of a new president or government to be installed and the conflicts resulted from that are major for foreign companies operating in Kazakhstan. Currently, the country experiences political stability and it attempts to improve the business climate in order to increase the foreign investments. However, the installation of a new president could change circumstances. Since the separation of the Soviet Union, Kazakhstan never changed from his leader. So, the impact of political instability on the results of Company X is hardly to estimate.

Although the impact on the results of Company X is disputable and it depends on many uncertain aspects. The potential impact according to interviewee Z for the results of Company X is major. This is also the opinion of the experts, who mainly score the impact of political instability as major.

9. Catastrophic events / conflicts

Catastrophic events such as terrorist attacks, civil war, coup threats or cross-border conflicts may have several major consequences for the end-users as well as Company X. Unpredictable catastrophic events may reduce the number of workable days of the end-users of Company X as well as the company itself. Reduction of the workable days of the end-users reduces their business results and subsequently that may decrease the willingness to invest in agricultural machinery and equipment. A reduction in the workable days of Company X may reduce the results of the company as it can lead to lower revenues due to inability to perform. In addition, according to interviewee Y the threat of catastrophic events to occur decreases the willingness of end-users to make investments due to the uncertainty.

Conclusively, the occurrence and the threat of catastrophic events can affect the whole economy of the country, which makes the conditions for foreign companies such as Company X to do business less favorable. As a result, the results of Company X in Kazakhstan are directly as well as indirectly affected by the threat and occurrence of catastrophic events in Kazakhstan.

Probability

Recently, the government of Kazakhstan increased their concern about violent extremist activities (United States Department of State, 2017). In the summer of 2016 several terrorist attacks occurred in Kazakhstan, especially in Aktobe and Almaty, resulted in the dead of more than 30 people (International Country Risk Guide, 2017).

Therefore, Kazakhstan is extremely alert to prevent terrorist attacks boosted by their fear of religious extremists. National security measures are installed and, although the attacks in the summer of 2016, they have pointed out the ability to suppress extremist activities (United States Department of State, 2017). Mass movements are not likely to happen, because the government restricts the possibilities boosted by the fear of terrorism and religious extremists. Organizing legal demonstrations in Kazakhstan is very time consuming and difficult (Coface, 2018). According to interviewee Z, the probability of catastrophic events of conflicts to occur in Kazakhstan is very low. Civil unrest is driven out by the government, the threat of terrorism is controlled by a crude policy and the country has good relationships with its neighbors and has no international enemies. In addition, the U.S. department of state (United States Department of State, 2017) has assessed Kazakhstan as being a low-threat location for catastrophic events.

So, the probability of the occurrence of catastrophic events such as terrorist attacks, civil war or cross-border conflicts in Kazakhstan is very unlikely to happen. Civil unrest is discouraged, the

country has no international enemies and the terroristic threat in the summer of 2016 made the country even more aware to control the national safety by a crude policy.

Impact

Although there is a very small chance that catastrophic events will occur in Kazakhstan, their impact on the results of Company X could be substantial. According to Professor D. Alexander (2013) companies have a tendency to abstain from investments in conflict zones. Argued by the Professor a decrease in the willingness to invest by organizations is a result of the fact that conflict zones suffer from limited access to credit markets, infrastructure degradation, limited access to energy and fuel, underemployment ascends and trust among individuals, groups and organizations decreases.

Although Company X is active in several areas of Kazakhstan, the company has mainly locations in the bigger cities of the country including Almaty and Aktobe as shown in figure 28. According to interviewee Z catastrophic events can directly affect the subsidiaries of Company X as well as the willingness of the Kazakh farmers to invest. Therefore, catastrophic events could have a significant impact on the results of Company X. Furthermore, the respondents of the survey also assess the impact of catastrophic events as significant. However, on the other hand, the threat of terrorism in the summer of 2016 had no influence on Company X.

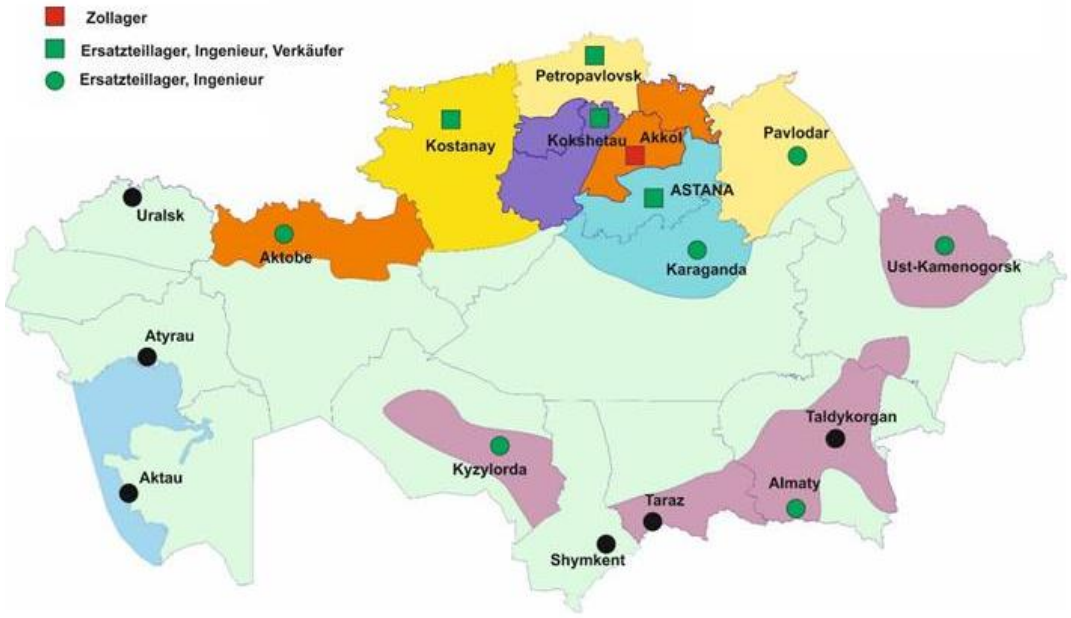


Figure 28. Locations of Company X in Kazakhstan (Company X, 2018)

So, according to the opinion of Professor D. Alexander, interviewee Z and the respondents the occurrence of catastrophic events could have a major impact on the result of Company X. However, recent experience with terrorism did not impact the company. Therefore, it is reasonable to presume that the impact of catastrophic events or conflicts depends on the type of conflict or event.

10. Decrease or ending of the subsidies and other incentives to stimulate the agricultural sector by the Kazakh government.

The agricultural sector is one of the main drivers of the Kazakhstani economy. To improve the sector the government qualifies agriculture as a priority development area and launched the AgriBusiness 2020 stimulating program in 2009. Through the AgriBusiness 2020 program the government provides several subsidies and other benefits such as favorable loans to support the agricultural sector till

2020 (The World Bank, 2016). However, many factors can lead to a suddenly decrease or ending of the government support. Furthermore, the follow-up of the program is still not clear. Kazakhstani end-users may be affected by adverse changes of the government support to the agricultural sector. The willingness to invest in agricultural machinery or equipment could decrease due to a decrease or ending of the government program. Subsequently, a decreased willingness to invest may affect the results of Company X in Kazakhstan. Therefore a decrease or ending of the government incentives to support the agriculture in the country may have an indirect effect on Company X.

Probability

The agricultural sector is already one of the main drivers of the Kazakh economy, however, the government recognizes the huge potential of the sector and stimulates therefore a further increase of the sector (The World Bank, 2017). In addition, according to the Kazakh government, the sector has to become the new driver of the economy reducing the dependency on the oil industry (The Republic of Kazakhstan, 2017). So, agriculture is one of the priority sectors in Kazakhstan and therefore the government has stated that the support to the sector as a stimulating part will remain.

In the last ten years the government support to the agriculture has increased significantly, as shown in figure 29. However, the government support still depends on the economic conditions of the country, as a result of a weakening economy the government could decide to decrease or end the support. The figure demonstrates Kazakhstan's bad performing economy in 2013, 2014 and 2015 due to the decreased oil prices. As a result the government support to the agricultural sector decreased significant (The World Bank, 2017). Therefore, according to Ramsay (2017) there remains always a risk of a changing economic situation of the country. Even without a change in the country's government, a bad performing economy could result in a decision by the government to decrease provided subsidies. Such cases happened already to a number of countries, like Spain in 2013 (Ramsay, 2017).

However, according to interviewee Z the probability of a new decrease in the government support is not likely. Although, a change in the way they provide their support is plausible due to their drive to improve the local production of the agricultural machinery and equipment, as clarified in risk factor 2.

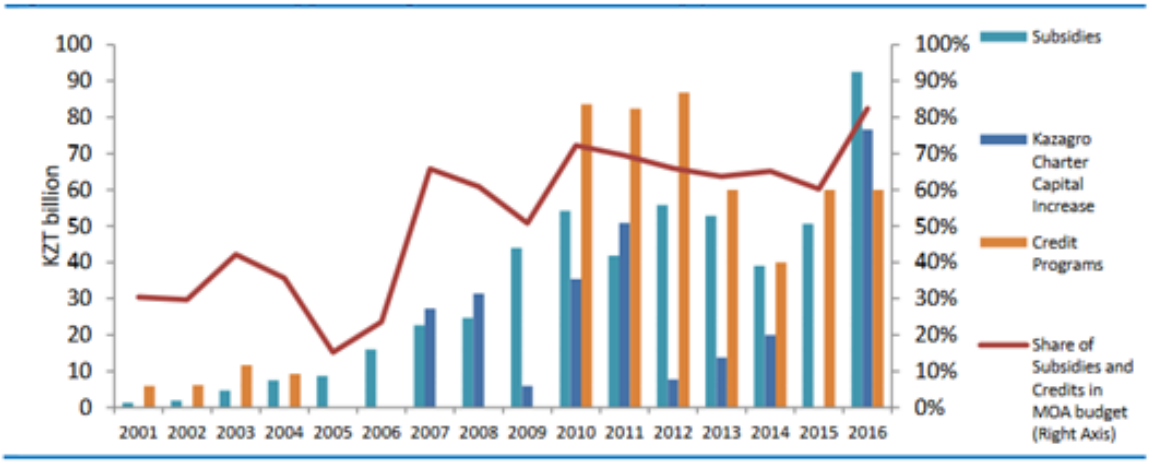


Figure 29. Government support to agricultural sector (The World Bank, 2017)

So, based on the pressure of the Kazakh government to employ the huge potential of the agricultural sector and to decrease the dependency on the oil sector a decrease in the stimulating program by the government is not likely to happen. However, the support provided by the government is to a high degree dependent on the national economic situation. It is already been proven that a bad performing economy results in a significant decrease of the government support.

Impact

A decrease or ending of the support by the Kazakh government provided to the agricultural sector can result in a significant decrease of the investments made by Kazakh farmers. The ability of Kazakh farmers to invest could depend to a certain degree on the support provided by the government, including the subsidies and the favorable loans. The dependency on the support of the government could further heighten in case of a low value of the national currency and high national interest rates.

The importance of the government state support program is also recognized by Dutch companies, operating in Kazakhstan. The research conducted by the Dutch Embassy in Kazakhstan (2017) shows that more than 55% of the companies involved in the research see state support programs by the Kazakh government as an important way to improve the business in Kazakhstan.

According to interviewee Z, a decrease in the provided government support will affect the demand on the market. However, comparing the sales figures of Company X in Kazakhstan with the support provided by the Kazakh government for the years 2015 and 2016 show no impact. The support of the Kazakh government increased significantly in 2016 compared to the year before, however the sales figures of Company X in 2016 were the same as the sales figures of 2015. The results of the survey show an exactly divided opinion by the experts.

So, according to the results of the research by the Dutch Embassy and the opinion of interviewee Z, the government support to stimulate the Kazakh government is considered as an important factor for doing business in Kazakhstan. However, a recently decreased supporting program by the Kazakh government did not impact the results of Company X. Furthermore, the respondents also show no clear interpretation. So, therefore a new decrease or ending of the subsidy program could have an impact on the results of Company X, however as the previous time did not impact the company it is expected that the impact would not be catastrophic.

7.4 Probability / impact matrix risk factors Kazakhstan

The results of the total assessment of the risk factors identified for Company X by doing business in Kazakhstan are visualized in the probability/impact matrix as shown in figure 30. The scores given by the experts in the survey are combined with the scores given by the interviewees. To assess the probability dimension of the risk factors, the scores of the experts and the interviewees have the same weighting. To assess the impact dimension of the risk factors, the scores of the interviewees are substantial important and therefore these scores have a weight of 70% and the scores of the respondents weigh 30%. In the case of Kazakhstan there are nine persons who gave scores for the risk factors, 3 of them are persons from Company X and six of them are external experts. The formula used to assess the impact dimension of the risk factors is:

*Average score interviewees * 0.7 + average score experts * 0.3*

1. Decrease in prices of agricultural products e.g. grains such as wheat
2. Increase in local production/assembly of agricultural machinery and equipment
3. Further cooperation on agricultural development between Kazakhstan and China
4. High / rising interest rates
5. Depreciation of the tenge
6. Currency transfer restrictions
7. Continuing legal and institutional failings
8. Political instability/conflicts if Nazarbayev (77) has to stop or is not able to continue
9. Catastrophic events / conflicts
10. Decrease or ending of the subsidies and other incentives to stimulate the agricultural sector by the Kazakh government

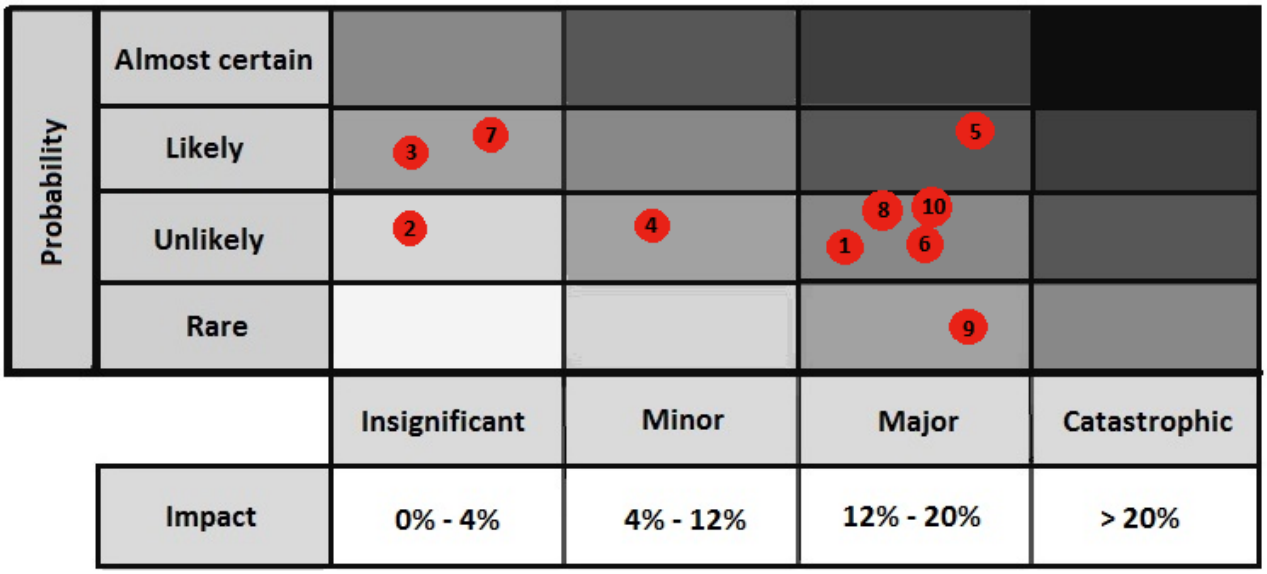


Figure 30. Probability impact matrix risk factors Kazakhstan based on the survey and interviews

Adjustments

The results showed in the probability/impact matrix in figure 30 do not take into account the assessment of the data from the documentation review. However, the results from the documentation review provide additional useful information to assess the risk factors that should be considered. The documentation review includes information from well known risk agencies such as the International Country Risk Guide, Euler Hermes, Economist Intelligence Unit, A.M. Best, Coface, but also documentations from worldwide organizations such as The World Bank and The International Monetary Fund and the Dutch and Kazakh Embassy.

The probability/impact matrix in figure 31 shows the assessment of the risk factors based on the documentation review. The assessment of the documentation review shows a similar tendency of the risks as the assessment based on the survey, although the general exposure of the risks based on the documentation review is lower. Both matrixes assess a depreciation of the Kazakh tenge as the most important risk factor. The exposure of the other risk factors is not alarming.

In order to get a total view of the exposure of the risk factors, the matrix based on the documentation review should be considered the most as it is based on several professional reports by established organizations.

1. Decrease in prices of agricultural products e.g. grains such as wheat
2. Increase in local production/assembly of agricultural machinery and equipment
3. Further cooperation on agricultural development between Kazakhstan and China
4. High / rising interest rates
5. Depreciation of the tenge
6. Currency transfer restrictions
7. Continuing legal and institutional failings
8. Political instability/conflicts if Nazarbayev (77) has to stop or is not able to continue
9. Catastrophic events / conflicts
10. Decrease or ending of the subsidies and other incentives to stimulate the agricultural sector by the Kazakh government

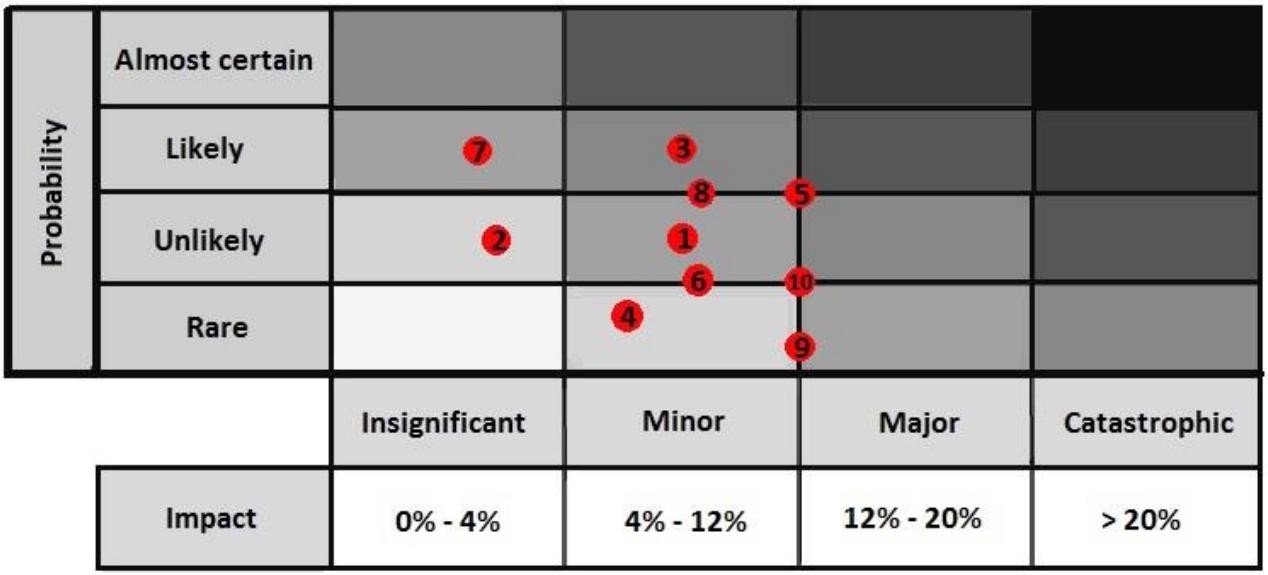


Figure 31. Probability impact matrix risk factors Kazakhstan based on the documentation review

7.5. Recommendations

Company X is exposed to a wide range of country specific risks by doing business in Kazakhstan. Ideally, the probability and the impact of these risk factors are minimized so that the exposure of Company X in Kazakhstan to those risks is minimal. However, not all the risks are manageable and the company should not try to manage them as the benefit of managing the risk is not worth the effort. Therefore, in this chapter recommendations are given for Company X about the best way to manage the risk exposure of the company in Kazakhstan.

In order to recommend an effective risk management strategy, it is essential to determine the risk appetite to maintain. The turnover achieved in Kazakhstan was € X million in 2017 and the total turnover of Company X in the same year was € X million. So the contribution of the division operating in Kazakhstan is sizeable. Therefore, it is recommended for Company X to keep a low risk appetite in the case of Kazakhstan. However, the exposure of the identified risk factors for Company X in Kazakhstan in general is limited. Therefore, managing these risk factors is not worth the effort. The only significant risk factor to take into consideration is a depreciation of the tenge. This is the biggest risk factor identified for Company X in Kazakhstan.

Depreciation of the tenge

The transaction risk of a depreciation of the Kazakh tenge is already managed by Company X through the natural hedging of using the euro. However, in case of a depreciated tenge, the company will still be exposed to the economic risk. The products of Company X offered in Kazakhstan could get an unfavorable competitive position due to a depreciation of the tenge.

A depreciation of the tenge makes the products of Company X in Kazakhstan more expensive. In order to maintain the competitive position in Kazakhstan in case of a depreciation, Company X could lower the prices of its products. However, adjusting the prices of the products to maintain the same price index for the Kazakh end-users puts the profit margin under pressure. So, managing the economic risk of a depreciation of the tenge is difficult.

It is a certainty that decreasing the prices of the products offered by Company X in Kazakhstan will lower the profit margin of the company. On the contrary, it is not completely certain that a worse competitive position, due to a depreciated tenge, will result in a decline of the results of Company X. Therefore it is recommended to accept the risk of a depreciated tenge.

Correlation between the risk factors

So, a depreciation of the tenge is the only significant risk factor for Company X to take into consideration in Kazakhstan. The exposure of the other identified risk factors is not important. However, the risk factors should not be considered completely independent, since some risk factors are related to each other to a certain extent.

The value of the Kazakh tenge is an important factor for many developments in the country. So, a depreciation of the tenge could be related to several other risk factors. The historical data of Kazakhstan show a correlation between a depreciation of the tenge and an increase of the interest rates. Also correlation is shown in the figures between a depreciation of the tenge and a decrease in the government support to the agricultural sector of Kazakhstan. Furthermore, a depreciation of the lira could also increase the chance of currency restrictions implemented by the government in order

to strengthen the national currency. So a depreciation of the tenge could increase the probability of the occurrence of other risk factors.

The risk factor of a further cooperation on agricultural development between Kazakhstan and China could be related to the risk factor of an increase in the local production of agricultural machinery and equipment. These two risk factors are recent developments and there is no historical data available to prove a correlation. However, it could be considered that there is a certain extent of relationship between the risk factors, as the cooperation of Kazakhstan and China could give Kazakhstan more technical possibilities and the specific expertise to increase the production of the machinery and equipment.

Furthermore, the risk of political instability by a sudden end of the presidential domination of Nazarbayev could influence other risk factors. Although there is no historical data in the case of Kazakhstan, it could be reasonable that the occurrence of political instability increases the probability of catastrophic events or conflicts to occur.

So, to assess the total risk exposure of Company X by doing business in Kazakhstan it should be considered that some risk factors are related to each other to a certain extent. In particular the risk of a depreciated tenge could influence several other risk factors.

Total recommendations Kazakhstan

The turnover of the company in Kazakhstan increased with 43% to € X million in a time period of three years, despite the presence of the risk factors and a bad performing economy of the country. Furthermore, the exposure of the identified risk factors for Company X in Kazakhstan is not alarming. So, therefore it is recommended for Company X to continue their operations in Kazakhstan and accept all the identified risk factors, including a depreciation of the tenge. A depreciation of the tenge is the only identified risk factor with a serious exposure. The other risk factors do not have a significant impact on the results of Company X and managing them is not worth the effort. However, it is still advisable to keep observing the development of some risk factors, including the cooperation on agricultural development between Kazakhstan and China, the succession of president Nazarbayev and the support of the Kazakh government to the agriculture sector.

8. Conclusion

By extending their businesses to Turkey and Kazakhstan, Company X is exposed to a range of additional country specific risks including economic risks, financial risks and political risks. The current risks of both countries are identified and assessed and the key findings are described in this concluding paragraph.

Turkey

The past few years, several developments in Turkey have occurred, which had an impact on many facets of the country including the economic, financial and political parts. The country is still dealing with these developments and Company X seems to suffer from Turkey's instability as the results stagnate. As a result, the risks identified for Company X by doing business in Turkey are generally assessed as relatively high risks.

The most important risk for Company X by doing business in Turkey is the depreciation of the Turkish national currency, the lira. The past eight years the lira experienced a dramatically loss of its value and a further decline is a widely based expectation due to the remained underlying causes. The impact for Company X of the occurrence of a further depreciation of the currency is major. Due to the fact that the products of Company X are provided in lira and there are extensive payment terms in Turkey, the company is exposed to transaction risk to a high extent. Furthermore, the competitive position of the company declines as a decrease of the lira makes it unfavorable for Turkish customers to purchase the products of Company X. Therefore, Company X is also exposed to the economic risk of a depreciated Turkish currency. Moreover, catastrophic events / conflicts, an increase in local production of agricultural machinery and equipment and a decrease or ending of the subsidies to stimulate the agricultural sector in Turkey by the EU are high assessed risk factors for Company X in Turkey.

It is recommended for Company X to accept the identified risks because of the high costs of managing them and the relatively low turnover of the company in Turkey. Currently, there are many relatively high risk factors in Turkey while the results of Company X are minor. So the benefit of managing the risks does not outweigh the costs. Therefore, conclusively it is recommended for Company X to observe the several developments in Turkey for the short to medium term. If the exposure of the identified risk factors does not diminish or the results of Company X do not increase, it is recommended to consider the continuation of the company's operations in Turkey.

Kazakhstan

Kazakhstan is an untroubled country with almost no considerable developments that have happened the past few years. As a result, the identified risk factors for Company X by doing business in Kazakhstan are assessed as significantly lower risks than the case is for Turkey. In addition, some identified risk factors for Kazakhstan are assessed as insignificant factors for the results of Company X. However, there are still some factors that deserve attention.

A big issue in the current Kazakh country assessment is the uncertainty about the period that president Nazarbayev continues and the uncertainty about his successor. Nazarbayev, who reaches the age of 79 in 2019, has not announced whether he will be eligible for the elections in 2019. However, the missing of a potential successor and having all the power could result in a problematic situation when it comes to the transfer of the presidential position.

Although, the most significant risk factor for Company X by doing business in Kazakhstan is the depreciation of the Kazakh national currency, the tenge. Since the Kazakh government let the tenge free from the peg to the U.S. dollar in 2015, the currency became highly volatile to external factors and therefore the value of the tenge in the future is uncertain. Even though Company X offers its agricultural machinery and equipment in Kazakhstan in euro, it is still exposed to the economic risk of a depreciated tenge.

It is recommended for Company X to accept all the identified risk factors in Kazakhstan. The exposure of the risk factors is in general limited and the results of the company show an increased tendency. So, the benefit of managing the risks does not outweigh the costs. Furthermore, the most important risk factor, a depreciation of the tenge, is already partly managed by natural hedging. However, it is still recommended for Company X to keep observing other developments in Kazakhstan, in particular the cooperation of Kazakhstan and China on agricultural development, the succession of president Nazarbayev and the support of the Kazakh government for the agriculture sector.

9. Limitations and further research

There are a few limitations of this case study research. Mainly the assessment of the exposure of the identified risk factors is subjected to some limitations. A survey has been developed in order to measure the probability and the impact of the risk factors. In total 52 external experts were asked for Turkey, however the final response was three. For Kazakhstan, 44 experts were asked to give scores for the identified risk, resulting in a response of six. More responses could have provided improved results to support the assessment of the risk factors. In addition, in the case of Turkey, no employees from the Dutch or Turkish embassy were available. So, the low response was a limitation for the results of the assessed risk factors. However, the limitation could be redressed due to an abundance of applicable data provided by the documentation review.

The subjectivity of the assessment of the identified risk factors forms another limitation. To assess the exposure of the identified risk factors, qualitative methods were used. A qualitative risk analysis is an often used analysis by multinational enterprises because of its usability. However, the process of a qualitative risk analysis is intuitive to a certain extent, as it is mainly based on human judgement. Therefore the qualitative methods to assess the exposure of the risk factors are neither foolproof nor objective methods as they include a certain degree of subjectivity.

Performing quantitative risk analysis could provide a more accurate analysis of the risk factors. Quantitative analysis is less subjective and less vulnerable to errors than qualitative analysis. However, in order to perform a quantitative analysis complex software, the specific expertise to use the software and statistical data is required. But even quantitative risk analysis contains a degree of subjectivity according to Wienclaw (2016).

This study focused on the specific features of the countries Turkey and Kazakhstan and the agricultural sector so the results are not clearly generalizable. However, some components of the results are still to a certain extent generalizable as it includes typical features of emerging economies or countries with political uncertainties. In addition, the results of this case study are mainly applicable for companies active in the agricultural sector and operating in Turkey and Kazakhstan or plan to operate in these countries.

Finally, this case study investigated the current risk factors for Company X in Turkey and Kazakhstan. However, both countries are subject to several developments and things can change very quickly. Therefore, it can be expected that the results of this study will be outdated in the short or medium term and so further research should again investigate the risks in the countries, taking into account the new developments. Furthermore, especially in the case of Turkey, developments should be followed closely.

10. References

A.M. Best. (2017). Country risk report Kazakhstan. *A.M. Best company Inc*.

A.M. Best. (2017). Country risk report Turkey. *A.M. Best company Inc*.

Al Khattab, A., Al-Rawad, M., Al Soboa, S., & Al Khattab, K. (2015). Country risk management in a developing country. *Journal of Service Science and Management, (8)*, 24-33.

Alexander, D. (2013). Threats and Opportunities of Doing Business in Conflict Zones. *Security Magazine*.

Alnaim, F. (2015). The case study method: critical reflection. *Global Journal of human-social science (Vol. 9),*29-32.

Amberg, N., & Friberg, R. (2016). Three Approaches to Risk Management and How and Why Swedish Companies Use Them. *Journal of Applied Corporate Finance (vol. 28)*, 86-94.

AP News. (2016). Prime minister appoints acting military chief. Retrieved from *https://apnews.com/e9096c0529414e8f959d86f8897e62be/latest-report-turkish-military-says-its-taken-control*

Arkilic, A. (2018). How Turkey's outreach to its diaspora is inflaming tensions with Europe. *The Washington Post*.

Asiedu, E. (2006). Foreign direct investment in Africa: The role of natural resources, market size, government policy, institutions & political instability. *The World Economy*, 63-67.

Atik, A. (2012). A Strategic Investment Decision:" Internationalization of SMEs": A Multiple Appraisal Approach and Illustration with a Case Study. *I-Business*.

Atradius. (2017). Country reports. *Amsterdam: Atradius N.V.*

Aven, T., & Renn, O. (2009). On Risk Defined as an Event Where the Outcome is Uncertain. *Journal of Risk Research* (12, 1), 1–11.

Ayyub, B. (2012). Fundamentals of Risk Analysis. *Thermal Power Plant Performance Analysis*, 147-187.

Barton, T., Shenkir, W., & Walker, P. (2001). Making Enterprise Risk Management Pay Off: How Leading Companies Implement Risk Management . *Financial Times / Prentice Hall* .

BBC. (2018). Macron tells Erdogan: No chance of Turkey joining EU. *BBC*.

Beasley, M., Branson, B., & Hancock, M. (2015). Report on the current state of enterprise risk oversight: Update on trends and opportunities. *American Institute of Certified Public Accountants (AICPA*) .

Bediako, T. (2014, May 20). Enterprise Risk Management - Integrated Framework. Retrieved from *ISACA'S IT Audit, Information Security & Risk : http://www.isaca.org/chapters9/Accra/Events/Documents/ERM%20ISACA.pdf*

Bekaert, G., Harvey, C. R., Lundblad, C. T., & Siegel, S. (2016). Political risk and international valuation. *Journal of Corporate Finance (37)*, 1-23.

Besteman, T. (2018). Turkse lira zakt op beperking centrale bank. *De Telegraaf*.

Bilgel, F., & Karahasan, B. C. (2016). Estimating the economic cost of Turkey's PKK conflict. *London School of Economics and Political Science*.

Birgel, F., & Karahasan, B. C. (2016). Thirty Years of Conflict and Economic Growth in Turkey: A Synthetic Control Approach. *LSE 'Europe in Question' Discussion Paper Series* .

Bloomberg. (2016). Hedge ratio optimization helps keep FX risks and costs low. Retrieved from *Professional services: https://www.bloomberg.com/professional/blog/hedge-ratio-optimization-helps-keep-fx-risks-costs-low/*

Boerenbusiness. (2015). Omzet en winst verdubbeld Company X heeft een prima jaar achter de rug. *Boerenbusiness*.

Boerenbusiness. (2015). Samenwerking in Turkije APH Group en Company X slaan handen ineen. *Boerenbusiness*.

Bouchet, M. H., Clark, E., & Groslambert, B. (2003). Country Risk Assessment: A Guide to Global Investment Strategy. Chichester*: John Wiley & Sons*.

Brink, C. H. (2004). Measuring Political Risk: Risks to Foreign Investment. Hants: *Ashgate Publishing*.

Broka, S., Giertz, A., Christensen, G., Rasmussen, D., Morgounov, A., Fileccia, T., et al. (2016). Kazakhstan agricultural sector risk assessment. Washington: *World Bank Group*.

Bromiley, P., McShane, M., Nair, A., & Rustambekov, E. (2015). Enterprise Risk Management: Review, Critique, and Research Directions. *Long Range Planning (Vol. 48, Issue 4)*, 265-276.

Brown, C. L., Cavusgil, T., & Lord, W. A. (2015). Country-risk measurement and analysis: A new conceptualization and managerial tool. *International Business Review (Vol. 24)*, 246-265.

Bryman, A., & Bell, E. (2011). Business Research Methods 3rd edition. Oxford: *Oxford University Press*.

Busse, M., & Hefeker, C. (2007). Political risk, institutions and foreign direct investment. *European Journal of Political Economy*, 397-415.

Cendrowski, H., & Mair, W. C. (2009). Enterprise Risk Management and COSO: A Guide for Directors, Executives and Practitioners. Hoboken: *John Wiley & Sons*.

Central Bank of the Republic of Turkey. (2018). EVDS. Retrieved from *Statistical data: https://evds2.tcmb.gov.tr/index.php?/evds/serieMarket/#collapse_3*

Central Intelligence Agency. (2018). Turkey. Washington: *The World Factbook*.

CFO Research Services. (2008). The changing landscape of risk management. Boston: *CFO Research Services*.

Chapman, R. J. (2006). Simple Tools and Techniques for Enterprise Risk Management. Chichester*: John Wiley & Sons.*

Choi, J., Mao, C., & Upadhyay, A. (2013). Corporate Risk Management under Information Asymmetry. *Journal of Business Finance & Accounting (40)*, 239–271.

Coface. (2018). Country & Sector Risks Handbook. Langres: *Coface*.

Collier, P. (2009). Fundamentals of Risk Management for Accountants and Managers. Oxford: *Butterworth-Heinemann*.

Comité Européen des groupements de constructeurs du machinisme agricole. (2017). *Turkey: an open & dynamic market for farm machinery is essential to uphold the country's competitive edge in agricultural production.* Brussels: CEMA.

Committee of Sponsoring Organizations of the Treadway Commision (COSO). (2004). Enterprise Risk Management - Integrated Framework Executive Summary. *Committee of Sponsoring Organizations of the Treadway Commision*.

Cooper, D., Grey, S., Geoffrey, R., & Walker, P. (2005). Project Risk Management Guidelines managing risk in large projects and complex procurements. Chichester: *John Wiley & Sons*.

Corporate Governance Council of Singapore. (2012). Risk Governance Guidance for listed Boards. Singapore: *Corporate Governance Council of Singapore*.

Credendo. (2015). Central Bank decided to leave the domestic currency, the tenge, free floating. *Credendo*.

Credendo. (2018). Country risk assessment. Retrieved from *Rating-explanation: https://www.credendo.com/rating-explanation*

Crouhy, M., Galai, D., & Mark, R. (2006). The essentials of risk management. New York: *McGraw-Hill*.

Daily Sabah. (2018). Expansive support package for Turkish agriculture aims to reduce imports. Retrieved from *Economy: https://www.dailysabah.com/economy/2018/02/21/expansive-support-package-for-turkish-agriculture-aims-to-reduce-imports*

de Mortanges, C. P., & Allers, V. (1996). Political risk assessment: Theory and the experience of Dutch firms. *International Business Review (Vol. 5)*, 303-318.

Delegation of the European Union to Turkey. (2018). Agriculture. Retrieved from *Agriculture and Rural Development: https://www.avrupa.info.tr/en/agriculture-and-rural-development-113*

Deloitte. (2017). Are you getting value out of your risk program*?* Retrieved from *COSO's ERM framework update comes with strategic risk advantage: https://www2.deloitte.com/si/en/pages/risk/articles/coso-erm-update.html*

Deming, E. W. (1986). Out of the Crisis . Cambridge: *MIT Press*.

Demirbag, M., Gunes, R., & Mirza, H. (1998). Political risk assessment: a case study of Turkish companies in Central Asia and Russia. In H. Mirza, Global Competitive Strategies in the New World Economy. Cheltenham: *Edward Elgar Publishing Ltd* .

Dumbravă, V., & Iacob, V. (2013). Using Probability - Impact Matrix in Analysis and Risk Assessment Projects. *Journal of Knowledge Management, Economics and Information Technology*, 77-88.

Dunn, J., & Herring, R. (1983). Managing International Risk. Cambridge: *Cambridge University Press*.

Economist Intelligence Unit. (2017). Country report Kazakhstan. London: *The Economist Intelligence Unit.*

Economist Intelligence Unit. (2018). Country report Kazakhstan. London: *Economist Intelligence Unit*.

Edmonds, T., Edmonds, E., Leece, D., & Vermeer, E. (2015). Do risk management activities impact earnings volatility? *Research in Accounting Regulation (Vol. 27 Issue 1)*, 66-72.

Efe, M. T. (2016). Effects of Agricultural input subsidies in Turkey case of Ivrindi district. Retrieved from *https://lib.ugent.be/fulltxt/RUG01/002/305/229/RUG01-002305229_2016_0001_AC.pdf*

Eleftheriadis, I., & Vyttas, V. (2017). Risk Management and Viability of Public Organizations. Development of a Risk Measurement Tool: The Case of Greece. *International Journal of Business and Economic Sciences Applied Research*, 55-59.

Embassy of the Kingdom of the Netherlands. (2017). Economic Newsletter. Astana: *Dutch embassy*.

Embassy of the Kingdom of the Netherlands. (2017). Economic newsletter on Kazakhstan. Astana: *Embassy of the Kingdom of the Netherlands*.

Embassy of the Kingdom of the Netherlands. (2017). Dutch Business in Kazakhstan challenges & perspectives. *Dutch Embassy*.

Erasmus Centre for Entrepreneurship. (2017). The Top 250 Scale-ups 2017 . Retrieved from *https://ece.nl/top250scaleups/*

Erb, C., Harvey, C., & Viskanta, T. (1996). Political Risk, Economic Risk, and Financial Risk. *Financial Analysts Journal*.

Euler Hermes Economic Research. (2017). Country report Kazakhstan. *Euler Hermes Economic Research*.

Euler Hermes Economic Research. (2017). Country report Turkey. *Euler Hermes*.

Eun, C. S., Resnick, B. G., & Sabherwal, S. (2012). International Finance. *Mcgraw-Hill Education - Europe.*

European Commission. (2007). IPA Rural Development (IPARD) Programme for Turkey. Retrieved from *Press release details: http://europa.eu/rapid/press-release_MEMO-07-609_en.htm?locale=en*

Everett, C. (2011). A risky business: ISO 31000 and 27005 unwrapped. *Computer Fraud & Security (Vol. 2011, Issue 2)*, 5-7.

Everett, J., & Watson, J. (1998). Small business failure and external risk factors. *Small business economics (Vol. 11)* , 371-390.

Farquhar, J. D. (2012). Case Study Research for Business. London: *SAGE Publications Ltd*.

Fatemi, A., & Luft, C. (2002). Corporate risk management: Costs and benefits. *Global Finance Journal (Vol. 13, Issue 1)*, 29-38.

Financieel Dagblad. (2013). Ondernemerskansen in Centraal-Azië en India. Retrieved from *https://fd.nl/events/view/crossing-continents/408/ondernemerskansen-in-centraal-azie-en-india*

Florio, C., & Leoni, G. (2017). Enterprise risk management and firm performance: The Italian case. *The British Accounting Review (Vol. 49, Issue 1)*, 56-74.

FocusEconomics. (2018). *Centra*l Bank cuts the base rate by 25 basis points for the third time this year. Retrieved from *Interest Rate in Kazakhstan: https://www.google.nl/search?source=hp&ei=5bERW7i5FZL5wQKDqY3ACQ&q=Central+Bank+cuts+the+base+rate+by+25+basis+points+for+the+third+time+this+year&oq=Central+Bank+cuts+the+base+rate+by+25+basis+points+for+the+third+time+this+year&gs_l=psy-ab.3...234.234.0*

Food and Agriculture Organization of the United Nations. (2017). Country fact sheet on food and agriculture policy trends Kazakhstan. *FAO*.

Frei, D., & Ruloff, D. (1987). The Methodology of Political risk assessment: An overview. *The Journal of New Paradigm Research (Vol. 25)*, 1-24.

Getz, L. d. (2017). Resolving the disconnect between risk appetites, tolerances, exposures and monitoring measurements. *Journal of Securities Operations & Custody (Vol 9, Number 4)*, 374-390.

Gillham, B. (2000). *Cas*e study research methods. London: *Paston PrePress*.

Gjerdrum, D., & Peter, M. (2011). The New International Standard on the practice of risk management - A comparison of ISO 31000:2009 and the COSO ERM framework. *Risk management (issue 21)*, 8-12.

Goodman, S. (1981). Assessing Country Risk (Vol. Corporate attitudes). London: *Euromoney Publications*.

Government of the Netherlands. (2018). Statement of the ministry of Foreign Affairs of the Netherlands on the bilateral relations with Turkey. Retrieved from *News: https://www.government.nl/ministries/ministry-of-foreign-affairs/news/2018/02/05/statement-of-the-ministry-of-foreign-affairs-of-the-netherlands-on-the-bilateral-relations-with-turkey*

Government of the Republic of Kazakhstan. (2017). Kazakhstan to produce 43% of the required agricultural machinery by 2021. Retrieved *from News: http://www.government.kz/en/novosti/1008721-kazakhstan-to-produce-43-of-the-required-agricultural-machinery-by-2021.html*

Government of the United Kingdom. (2017). Overseas business risk Kazakhstan. *UK government*.

Gözlüklü, B., & Bicer, R. (2018). Turkey: Restrictions on foreign currency loans. London: *International Tax Review*.

Green, P. E. (2016). Enterprise Risk Management: A common framework for the entire organization (1st ed., Vol. Chapter 1). Waltham: *Elsevier*.

Guha-Khasnobis, B., & Mavrotas, G. (2008). Financial Development, Institutions, Growth and Poverty Reduction. New York: *Palgrave Macmillan*.

Gupta, A. (2013). Environmental and pest analysis: An approach to external business environment. *Merit Research Journal of Art, Social Science and Humanities (Vol. 1)* , 14-17.

Hair, J., Babin, B., Money, A., & Samouel, P. (2011). Essentials of Business Research Methods. Londen: *Routledge*.

Hancock, D., & Algozzine, B. (2006). Doing case study research - a practical guide for beginning researchers. New York: *Teachers College Press*.

Hayakawa, K., Kimura, F., & Lee, H.-H. (2013). How does country risk matter for foreign direct investment? *The developing economies (Vol.51)*, 60-78.

Hayne, C., & Free, C. (2014). Hybridized professional groups and institutional work: COSO and the rise of enterprise risk management. *Accounting, Organizations and Society*, 309-330.

Heldman, K. (2005). Project Manager's Spotlight on Risk Management. London: *Neil Edde*.

Herrera, M. (2013). Four Types of Risk Mitigation. Retrieved from *BCM Governance, Risk and Compliance: https://www.mha-it.com/2013/05/four-types-of-risk-mitigation/*

Hillier, D., Grinblatt, M., & Titman, S. (2011). Financial Markets and Corporate Strategy. *Mcgraw-Hill Education - Europe.*

Hillson, D. (1998). Project risk management: future developments. *International Journal of Project and Business Risk*, 1-11.

Hillson, D. (2004). Effective opportunity management for projects - exploiting positive risk. *CRC Press*.

Hillson, D., & Hulett, D. (2004). Assessing risk probability. *Project Management Institute*.

Hodkinson, P., & Hodkinson, H. (2001). The strengths and limitations of case study research. Leeds*: University of Leeds*.

Hood, J., & Nawaz, S. (2004). Political Risk Exposure and Management in Multi-national Companies: Is There a Role for the Corporate Risk Manager? *Risk Management: An International Journal, (Vol. 6, Issue 1)* , 7-18.

Hoti, S. (2003). The International Country Risk Guide: An Empirical Evaluation*. Department of Economics, University of Western Australia* .

Hoti, S., & McAleer, M. (2004). An empirical assessment of country risk ratings and associated models. *Journal of Economic Surveys*, 540-585.

Howell, L. D. (2007). The Handbook of Country and Political Risk Analysis*.* New York: *PRS Group*.

Hoyt, R. E., & Liebenberg, A. P. (2015). Evidence of the Value of Enterprise Risk Management. *Journal of Applied Corporate Finance (Vol. 27)*, 41-47.

IFWexpo Heidelberg. (2017). KazAgro/KazFarm 2017. Retrieved from *http://ifw-expo.de/exhib/kazagro-kazfarm-2017-en/*

International Country Risk Guide. (2017). Country analysis*. PRS group*.

International Country Risk Guide. (2017). Country Report Kazakhstan*. PRS Group*.

International Country Risk Guide. (2017). Country risk Turkey*. PRS Group*.

International Organization for Standardization. (2009). ISO 31000:2009 Risk management -- Principles and guidelines. Retrieved from *https://www.iso.org/standard/43170.html*

Iyigün, S. (2017). *Turkey:* impressive growth but increasing vulnerability to external factors*.* Istanbul: *Coface Economic Publications*.

Joshi, R. M. (2009). International Business*.* New Delhi: *Oxford University Press*.

Jutte, B. (2010). 10 golden rules of project risk management*.* Retrieved from *https://www.projectsmart.co.uk/10-golden-rules-of-project-risk-management.php*

Kazakh tv. (2018). Investing into Kazakhstan*.* Retrieved from *http://kazakh-tv.kz/en/view/business/page_191386_investing-into-kazakhstan*

Kazakh Zerno. (2016). Kazakhstan is provided with its own agricultural machinery only by 1%. Retrieved from *http://eng.kazakh-zerno.kz/index.php?option=com_content&task=view&id=1449&Itemid=1*

Kennedy, C. R. (1991). Managing the International Business Environment*:* Cases in Political and Country Risk*.* Englewood Cliffs: *Prentice Hall*.

Kettis, M. (2004). The Challenge of Political Risk Exploring the political risk management of Swedsih multinational corporations*.* Stockholm: *Stockholm University*.

Khadem, M. M., Piya, S., & Shamsuzzoha, A. (2017). Quantitative risk management in gas injection project: a case study from Oman oil and gas industry. *Journal of Industrial Engineering International*, 1-18.

Klonoski, R. (2013). The case for case studies: Deriving theory from evidence *Journal of Business case studies* (Vol. 9), 261-264.

Knight, W. (1999). An introduction to the Australian and New Zealand Risk Management Standards: AS/NZL: 4360: 1999. *ISO working group.*

Knowles, W. (2005). Jordan Since 1989 A Study in political economy. London: *I.B. Tauris*.

Kosmidou, K., Doumpos, M., & Zopounidis, C. (2008). Country Risk Evaluation. New York: *Springer*.

Krayenbuehl, T. (2001). Cross-Border Exposures and Country Risk: Assessment and Monitoring (1st ed.). Cambridge: *Woodhead Publishing*.

Lam, J. (2003). Enterprise Risk Management: From Incentives to Controls. Hoboken: *John Wiley & Sons*.

Lefley, F. (1997). Approaches to risk and uncertainty in the appraisal of new technology capital projects. *International Journal of Production Economics*, 21-33.

Leitch, M. (2010). ISO 31000:2009—The New International Standard on Risk Management. *Risk Analysis (Vol. 30, No. 6)*, 887-892 .

Lester, A. (2007). Project Management, Planning and Control. Oxford: *Butterworth-Heinemann*.

Lichtenstein, S. (1996). Factors in the selection of a risk assessment method. *Information Management & Computer Security, (Vol. 4 Issue 4)*, 20-25.

Loghry, J. D., & Veach, C. (2009). Enterprise Risk Assessments Holistic Approach Provides Companywide Perspective. *Journal of the American society of safety engineers*, 31-35.

Maartens, L. (2017). Column: Turkse lira in vrije val. *De Telegraaf*.

Meldrum, D. (1999). Country risk and a quick look at Latin America. *Journal of the National Association of Business Economics 34*, 30–37.

Meldrum, D. (2000). Country Risk and Foreign Direct Investment. *Business Economics (35)*, 33-40.

Melvin, M., & Norrbin, S. (2013). International money and finance (Eighth ed.). Waltham: *Elsevier*.

Meulbroek, L. (2002). A Senior Manager's guide to integrated risk management. *Journal of Applied Corporate Finance*, 56-70.

Mikes, A. (2009). Risk management and calculative cultures. *Management Accounting Research, (20)*, 18-40.

Miles, M., & Huberman, M. (1994). Qualitative data analysis (second ed.*). SAGE Publications*.

Miller, D. (1992) A Framework for Integrated Risk Management in International Business. *Journal of International Business Studies* (Vol. 23, No. 2), 311-331.

Miller, K. D. (1998). Economic Exposure and Integrated Risk Management. *Strategic Management Journal (Vol. 19)*, 497-514.

Miller, K. D., & Waller, G. (2003). Scenarios, Real Options and Integrated Risk Management. *Long Range Planning (36)*, 93–107.

Ministerie van Landbouw, Natuur en voedselkwaliteit. (2017). Turkije 2023: in de mondiale top 5 van landbouwproducenten*?* Retrieved from *Turkije achtergrond: https://www.agroberichtenbuitenland.nl/landeninformatie/turkije/achtergrond/agrologistiek*

Ministry of Agriculture of Republic of Kazakhstan. (2017). More than 80% of agricultural machinery in Kazakhstan outdated - MA*.* Retrieved from *News: https://bnews.kz/en/news/more_than_80_of_agricultural_machinery_in_kazakhstan_outdated__ma*

Moment. (2013). Rising Power of Turkey: Agricultural Machinery Sector. Retrieved from *Sectoral Focus: http://en.moment-expo.com/rising-power-of-turkey-agricultural-machinery-sector*

Moran, T. H. (2001). International Political Risk Management: Exploring New Frontiers*.* Washington: *The World Bank*.

Mullai, A. (2006). Risk management system - Risk assessment frameworks and techniques*. DaGoB*.

National Bank of Kazakhstan. (2018). Monetary policy*.* Retrieved from *http://www.nationalbank.kz/?docid=3326&switch=english*

National Bank of Kazakhstan. (2018). Press-release*.* Almaty: *National Bank of Kazakhstan*.

Nebehay, S. (2018). U.N. calls for Turkey to end state of emergency, halt violations. *Reuters*.

O'Donnell. (2005). Enterprise Risk Management: A systems-thinking framework for the event identification phase. *International Journal of Accounting Information Systems*, 177-195.

OECD. (2017). Turkey in Agricultural policy monitoring and evaluation*.* Paris: *OECD Publishing*.

Olibe, K., Michello, F., & Thorne, J. (2008). Systematic risk and international diversification: An empirical perspective. *International Review of Financial Analysis*.

O'Neill, D. (2014). Risky business: The political economy of Chinese investment. *Journal of Eurasian studies*.

Organization for Economic Co-operation and Development and Food and Agriculture Organization of the United Nations. (2017). OECD-FAO Agricultural Outlook 2017-2026*.* Paris: *OECD Publishing*.

Osabutey, E., & Okoro, C. (2015). Political risk and foreign direct investment in Africa: The case of the Nigerian Telecommunications industry. *International Business Review*, 417-428.

Oukes, T. (2017). A practical example of conducting a case study - *Business research bootcamp. Enschede*.

Oxelheim, L., & Wihlborg, C. (2005). A Comprehensive Approach to the Measurement of Macroeconomic Exposure. *Copenhagen Business School*.

Pagach, D., & Warr, R. (2011). The characteristics of firms that hire chief risk officers. *Journal of Risk and Insurance, (78)*, 185-211.

Palisade Corporation. (2018). Risk Analysis. Retrieved from *http://www.palisade.com/risk/risk_analysis.asp*

Project Management Institute. (2000). A guide to the project management body of knowledge. Newtown Square: *Project Management Institute Publishing*.

Purdy, G. (2010). ISO 31000:2009—Setting a New Standard for Risk Management. *Risk Analysis, (Vol. 30, No. 6)*, 881-886.

Queensland Government. (2016). Treat risks to your business. Retrieved from *Preparing a risk management plan and business impact analysis: https://www.business.qld.gov.au/running-business/protecting-business/risk-management/preparing-plan/treat*

Rabobank. (2017). Country report Turkey. Utrecht: *Rabobank*.

Radu, L.-D. (2009). Qualitative, Semi-Quantitative And, Quantitative Methods For Risk Assessment: Case Of The Financial Audit. *Alexandru Ioan Cuza University, Faculty of Economics and Business Administration, (Vol. 56)*, 643-657.

Ramos, S., & Veiga, H. (2011). Risk factors in oil and gas industry returns: International evidence. *Energy Economics (33)*, 525-542.

Ramsamy, V. (2017). Four risk management strategies. Retrieved from *best-practices: http://www.abaxservices.com/best-practices/four-risk-management-strategies/*

Ramsay, A. (2017). Political Risk: Insights for Your Firm. Retrieved from *https://www.aig.com/knowledge-and-insights/k-and-i-article-political-risk-insights-for-your-global-business*

Republic of Turkey Prime Ministry Investment Support and Promotion Agency. (2017). Machinery. Retrieved from *Sectors: http://www.invest.gov.tr/en-US/sectors/Pages/MachineryAndElectronics.aspx*

Rijksoverheid Koninkrijk der Nederlanden. (2018). Reisadvies Turkije. Retrieved from *Nederland Wereldwijd: https://www.nederlandwereldwijd.nl/reizen/reisadviezen/turkije*

Ritchie, B., & Marshall, D. (1993). Business risk management. London: *Chapman & Hall*.

Company X. (2016). Listing Prospectus. Apeldoorn: *SNS Securities*.

Company X N.V. (2010). Annual report. Apeldoorn: *Company X*.

Company X N.V. (2014). Industrie Intern-Transport. Apeldoorn: *Company X*.

Company X N.V. (2015). Forse toename van de omzet en winstgevendheid. Retrieved from *Archief: https://www.companyX.com/nl/nieuws-en-media/archief/2015/10065/forse-toename-van-de-omzet-en-winstgevendheid*

Company X N.V. (2017). Bedrijfsprofiel. Retrieved from *https://www.companyX.com/nl/over-ons/bedrijfsprofiel*

Company X N.V. (2017). Corporate Brochure. Apeldoorn: *Company X*.

Company X N.V. (2018). Historie. Retrieved from *Over ons: https://www.companyX.com/nl/over-ons/historie*

Company X N.V. (2018). Organigram. Retrieved from *Over ons: https://www.companyX.com/nl/over-ons/organigram*

Scandizzo, S. (2005). Risk Mapping and Key Risk Indicators in Operational Risk Management. *Economic Notes : Review of Banking, Finance and Monetary Economics (Vol. 34)*, 231–256.

Schneider Group. (2017). Doing business in Kazakhstan. Aktau: *Schneider Group*.

Schroeder, S. K. (2008). The underpinnings of country risk assessment. *Journal of economic surveys*, 499-506.

Senocak, A. (2018). New protectionist measures in Turkish foreign exchange regulations. Retrieved from *News & Insights: https://www.gide.com/en/actualites/new-protectionist-measures-in-turkish-foreign-exchange-regulations*

Shanmugam, B. (1990). Evaluation of political risk: An introduction to bank lending. Sydney: *Addison-Wesley Business Series*.

Shenkir, G., & Walker, P. (2007). Enterprise risk management: tools and techniques for effective implementation. Montvale: *Institute of Management Accountants*.

Shortreed, J. (2010). ERM Frameworks. In J. Fraser, & B. J. Simkins, Enterprise Risk Management. *John Wiley & Sons*.

Smith, K. (2009). Environmental hazards assessing risk and reducing disaster (fifth ed.). New York: *Routledge*.

Smith, N., Merna, T., & Jobling, P. (2006). Managing Risk In Construction Projects (Second ed.). Oxford: *Blackwell Publishing*.

Société Générale. (2018). Country Risk of Kazakhstan: Economy. Paris: *Société Générale*.

Soy, S. K. (1997). The case study as a research method. *University of Texas at Austin*.

Stephens, E. (2016). Enterprise Risk Management: a common framework for the entire organization (1st ed. Vol 15). Waltham: *Elsevier*.

Stykow, P. (2018). Kazakhstan – A New Move Towards Succession? Retrieved from *https://presidential-power.com/?p=7634*

Tarmakbir. (2018). Agricultural Machinery Statistical Bulletin. Ankara: *Tarmakbir*.

Ten Bosch, G. (2016). Company X door oude bekende Gilde en Todlin van beurs gehaald. *Financieel Dagblad*.

Tengri News. (2015). Kazakhstan National Bank explains tenge depreciation and equilibrium rate. Retrieved from *Economy: https://en.tengrinews.kz/finance/Kazakhstan-National-Bank-explains-tenge-depreciation-and-263120/*

The Astana Times. (2018). Kazakh Invest works on improving investment climate, executive says. Retrieved from *https://astanatimes.com/2018/03/kazakh-invest-works-on-improving-investment-climate-executive-says/*

The Kazakh government. (2017). Export oriented agricultural enterprises of Kazakhstan can get favorable loans under a special program. Retrieved from *The Prime Minister of Kazakhstan: https://primeminister.kz/en/news/all/15147*

The National Bank of Kazakhstan. (2018). Base interest rate of the NBK. Retrieved from *http://www.nationalbank.kz/?docid=107&switch=english*

The Open University. (2016). Understanding and managing risk. Milton Keynes: *The Open University*.

The PRS Group. (2012). International Country Risk Guide Methodology. *The PRS Group*.

The PRS Group. (2017). Country analysis Kazakhstan. *The PRS Group*.

The PRS Group. (2017). International Country Risk Guide. Retrieved from *https://www.prsgroup.com/about-us/our-two-methodologies/icrg*

The PRS Group. (2017). Country analysis Turkey. *The PRS Group*.

The Republic of Kazakhstan. (2017). The President of Kazakhstan Nursultan Nazarbayev's Address to the Nation of Kazakhstan. Retrieved from *Addresses of the President of Kazakhstan: http://www.akorda.kz/en/addresses/addresses_of_president/the-president-of-kazakhstan-nursultan-nazarbayevs-address-to-the-nation-of-kazakhstan-january-31-2017*

The U.S. Department of Commerce's International Trade Administration. (2016). Kazakhstan – Agricultural Equipment and Machinery. Retrieved from *Kazakhstan Country Commercial Guide: https://www.export.gov/article?id=Kazakhstan-Agricultural-Equipment-and-Machinery*

The U.S. Department of Commerce's International Trade Administration. (2017). Turkey Country Commercial Guide. Retrieved from *Turkey - 1-Openness to, & Restrictions Upon, Foreign Investment: https://www.export.gov/article?id=Turkey-Openness-to-Investment*

The U.S. Department of Commerce's International Trade Administration. (2018). Kazakhstan - Foreign Exchange Controls. Retrieved from *Kazakhstan Country Commercial Guide: https://www.export.gov/article?id=Kazakhstan-Foreign-Exchange-Controls*

The Western Producer. (2017). Farm machinery sales may shift reverse. Retrieved from *https://www.producer.com/2017/11/farm-machinery-sales-may-shift-reverse/*

The World Bank. (2016). Agricultural sector risk assessment Kazakhstan. Washington: *World Bank Group.*

The World Bank. (2016). Kazakhstan agricultural sector risk assessment. Washington: *World Bank Group.*

The World Bank. (2017). Country snapshot Kazakhstan. Astana: *World Bank Group*.

The World Bank. (2017). Kazakhstan country economic update. *World Bank Group*.

The World Bank. (2017). Kazakhstan Country Economic Update. Washington: *World Bank Group*.

The World Bank. (2017). Turkey country snapshot. Ankara: *World Bank Group*.

The World Bank. (2018). World Bank Commodity price data. *World Bank Group*.

The World Bank. (2017). Commodity Markets Outlook. Washington: *World Bank Group*.

Ting, W. (1988). Multinational risk assessment and management: strategies for investment and marketing decisions. *Thunderbird International Business Review, (Vol. 30, Issue 2-3)*, 31–33.

TradingEconomics. (2018). Kazakh Tenge - Forecast. Retrieved from *Forecast: https://tradingeconomics.com/kazakhstan/currency/forecast*

TradingEconomics. (2018). Kazakhstan - Economic Forecasts - 2018-2020 Outlook. Retrieved from *Forecast: https://tradingeconomics.com/kazakhstan/forecast*

Tyrrall, D., Woodward, D., & Rakhimbekova, A. (2007). The relevance of International Financial Reporting Standards to a developing country: Evidence from Kazakhstan. *The International Journal of Accounting (Vol 42, Issue 1)*, 82-110.

U.S. Department of State - Bureau of Consular Affairs. (2018). Turkey Travel Advisory. Retrieved from *Travel.State.Gov: https://travel.state.gov/content/travel/en/traveladvisories/traveladvisories/turkey-travel-advisory.html*

United States Department of State. (2017). Kazakhstan 2017 Crime & Safety Report*: Astana.* Retrieved from *https://www.osac.gov/pages/ContentReportDetails.aspx?cid=21133*

Utter, J. S. (2006). Enterprise Risk Management in 2005 - Moving beyond market and credit risk. In K. Leggio, D. Bodde, & M. Taylor, Managing Enterprise Risk: what the electric industry experience implies for contemporary business (pp. 107-113). Oxford: *Elsevier Ltd*.

Van Aken, J. E., Berends, H., & Van der Bij, H. (2012). Problem solving in organizations. *Cambridge University Press*.

van Efferink, L., Kool, C., & van Veen, T. (2003). Country Risk Analysis. Amsterdam: *The Netherlands Institute for Banking, Insurance and Investment*.

Van Tongeren, J.-W. (2015). Country Report Kazakhstan. *Rabobank - Economic Research*.

Van Well-Stam, D., Van Kinderen, S., & Van den Bunt, B. (2010). Risicomanagement voor projecten. *Het Spectrum*.

Wang, P. (2009). The Economics of Foreign Exchange and Global Finance (Second ed.). Berlin: *Springer*.

Weller, N. (2015). The guidance published by the Committee of Sponsoring Organisations (COSO). Retrieved from *COSO Enterprise Risk Management Framework: http://www.accaglobal.com/gb/en/student/exam-support-resources/professional-exams-study-resources/p1/technical-articles/coso-enterprise-risk-management-framework-part-1.html*

Wienclaw, R. (2016). Business Impact Analysis. *Research Starters Business*.

Winch, G. (2002). Managing construction projects, an information processing approach. Oxford: *Blackwell Publishing*.

World Bank Group. (2018). Turkey. Retrieved from *Agriculture, value added (% of GDP): https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?end=2016&locations=TR&start=1960&view=chart*

XE. (2018). XE Currency Charts: KZT to EUR. Retrieved from *https://www.xe.com/currencycharts/?from=KZT&to=EUR&view=10Y*

XE. (2018). XE Currency Charts: TRY to EUR. Retrieved from *https://www.xe.com/currencycharts/?from=TRY&to=EUR&view=10Y#*

Xuemei Hou, A. (2013). Risk Management in International Business. *Risk Management (Issue 27)*, 23-24.

Yin, R. K. (2003). Case study research: Designs and methods (Third ed.). Thousand Oaks, CA: *SAGE Publications*.

Yin, R. K. (2009). Case Study Research Design and Methods (Fourth ed.) London: *SAGE Publications*.

Zhao, X., Hwang, B.-G., & Low, S. P. (2015a). Enterprise Risk Management in International Construction Operations. Singapore: *Springer*.

Zhao, X., Hwang, B.-G., Low, S. P., & Wu, P. (2015b). Reducing hindrances to enterprise risk management implementation in construction firms. *Journal of Construction Engineering and Management (Vol. 141, issue 3)*, 31-38.

11. Appendices

Appendix I Interview X and Interview Y

April 4th 2018 and April 19th 2018

- **Introduction**

Dear mister X,

Thank you very much for your time to have this interview, concerning my thesis research. The research focuses on risk management for Company X by doing business in Kazakhstan and Turkey. For this interview only the case of Turkey will be discussed.

For both countries I try to identify the most important risk factors that might affect the results of Company X in those countries negatively. The risk factors which I am focusing on are the economic, financial and political risks. After the most important risks are identified, it is the purpose to measure the risks based on the probability that it will occur and the impact the risk will have if it occurs. Thereafter possible strategies to manage the significant risks will be drawn up.

The first step in conducting the research is to identify the most important risk factors for Company X by doing business in Turkey. Given your knowledge and experience, I think that you can provide me with very valuable information in this stage of the research. Therefore I would like to ask you some questions about risks in Turkey. The information that will be collected through this interview will be treated in complete confidence and your response will remain anonymous.

- **General questions**

1. What is your function within your organization?

2. What is your nationality?

- **Risk identify questions**

1. What are according to your opinion **economic** risk factors for Company X by doing business in Turkey, which can negatively affect the turnover of Company X in the country and can you explain them?

2. What are according to your opinion **financial** risk factors for Company X by doing business in Turkey, which can negatively affect the turnover of Company X in the country and can you explain them?

3. What are according to your opinion **political** risk factors for Company X by doing business in Turkey, which can negatively affect the turnover of Company X in the country and can you explain them?

4. By means of several reports such as internal reports of Company X and external reports of different organizations such as banks, companies and governments I have already identified some risk factors. What do you think of these risk factors and do you recognize them? Can you explain why you think it is or it is not a risk factor for Company X operating in Turkey?

Appendix II Survey Turkey

Risk management the case of Turkey

I would like to know your opinion about a number of risk factors by doing business in Turkey. (some agricultural specific factors)

General questions

What is your function within your organization?

Jouw antwoord

What is your nationality?

Jouw antwoord

Do you have experience in - or knowledge of Turkey?

Jouw antwoord

The probability of the risk factors to occur in Turkey

Can you give scores from rare to almost certain for the following risk factors based on the probability that the risk factor will occur in the next 3 years in Turkey? (The scores can not be wrong, it is just your opinion as an expert).

Economic Risks

	Rare	Unlikely	Likely	Almost certain
1. Decrease in prices of agricultural products e.g. grains such as wheat and corn	○	○	○	○
2. Rising interest rates in Turkey	○	○	○	○
3. Increase in local production of agricultural machinery and equipment	○	○	○	○

Explanation economic risks (optional)

Jouw antwoord

Financial Risks

	Rare	Unlikely	Likely	Almost certain
4. Depreciation of the Lira	○	○	○	○
5. Currency transfer restrictions	○	○	○	○

Explanation financial risks (optional)

Jouw antwoord

Political Risks

	Rare	Unlikely	Likely	Almost certain
6. Catastrophic events / conflicts such as civil war, coup threat, terrorism or war	○	○	○	○
7. Further rising tensions between Turkey and Western Europe	○	○	○	○
8. More stringent authoritarian policy Erdogan	○	○	○	○
9. Decrease or ending of the subsidies and other incentives to stimulate the agricultural sector by the Turkish government.	○	○	○	○
10. Decrease or ending of the subsidies to stimulate the agricultural sector in Turkey by the EU (IPARD)	○	○	○	○

Explanation political risks (optional)

Jouw antwoord

The impact of the risk factors in Turkey if they occur

Can you give scores from insignificant to catastrophic for the following risk factors based on the impact that the risk factor will have on a Dutch distributor of agricultural machinery operating in Turkey? (The scores can not be wrong, it is just your opinion as an expert).

Economic Risks

	Insignificant	Minor	Major	Catastrophic
1. Decrease in prices of agricultural products e.g. grains such as wheat and corn.	○	○	○	○
2. Rising interest rates	○	○	○	○
3. Increase in local production of agricultural machinery and equipment	○	○	○	○

Explanation on the impact of the economic risks (optional)

Jouw antwoord

Financial Risks

	Insignificant	Minor	Major	Catastrophic
4. Depreciation of the Lira	○	○	○	○
5. Currency transfer restrictions	○	○	○	○

Explanation on the impact of the financial risks (optional)

Jouw antwoord

Political Risks

	Insignificant	Minor	Major	Catastrophic
6. Catastrophic events / conflicts such as civil war, coup threat, terrorism or war	○	○	○	○
7. Further rising tensions between Turkey and Western Europe	○	○	○	○
8. More stringent authoritarian policy Erdogan	○	○	○	○
9. Decrease or ending of the subsidies and other incentives to stimulate the agricultural sector by the Turkish government.	○	○	○	○
10. Decrease or ending of the subsidies to stimulate the agricultural sector in Turkey by the EU (IPARD)	○	○	○	○

Explanation on the impact of political risks (optional)

Jouw antwoord

Do you have any other comments regarding risk management in Turkey that may be valuable for this research?

Jouw antwoord

VERZENDEN

Verzend nooit wachtwoorden via Google Formulieren.

Appendix III Total results of the survey of Turkey

General questions

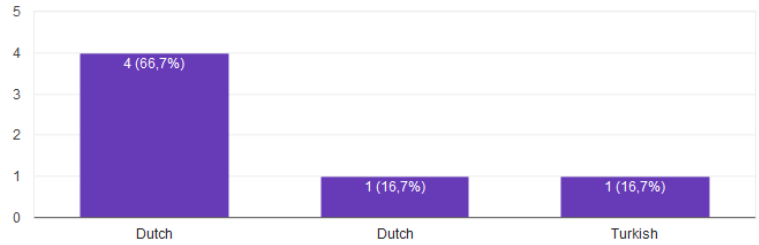
What is your function within your organization?

6 reacties

Managing director
Division controller
Manager
Senior Commercial Officer
Group controller
Finance Director

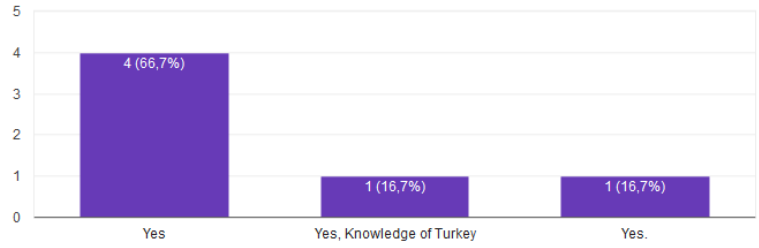
What is your nationality?

6 reacties



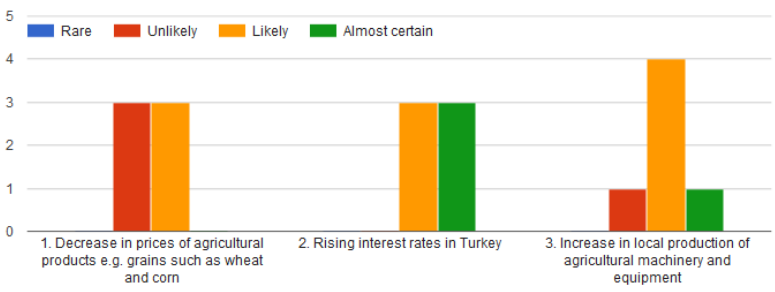
Do you have experience in - or knowledge of Turkey?

6 reacties



The probability of the risk factors to occur in Turkey

Economic Risks



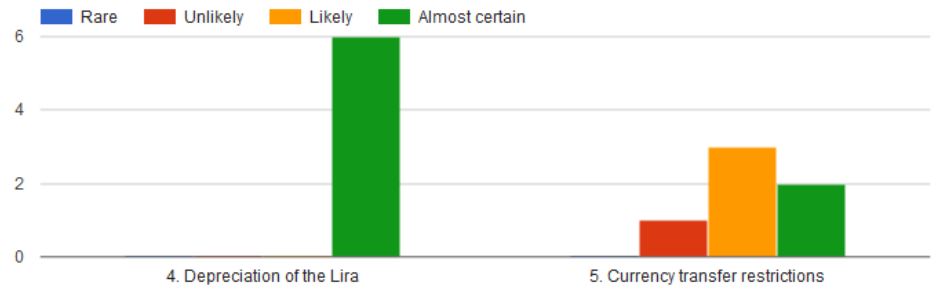
Explanation economic risks (optional)

2 reacties

Difficult. The parameters on a macro level call for pessimism, but the T economy has more resilance than we usuall assume

Local produced equipment should not be a fair competetion compared to our premium brand. We are not selling equipment directly related to grains/wheat/corn in Turkey, therefore unlikely

Financial Risks

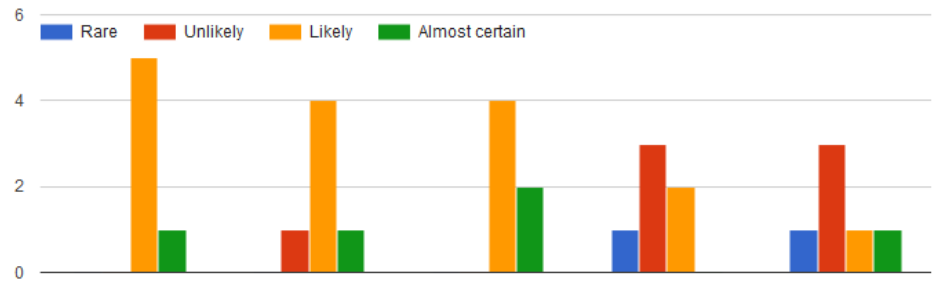


Explanation financial risks (optional)

1 reactie

Currently the Lira is more or less in a free fall. Currency transfer restrictions are in place.

Political Risks



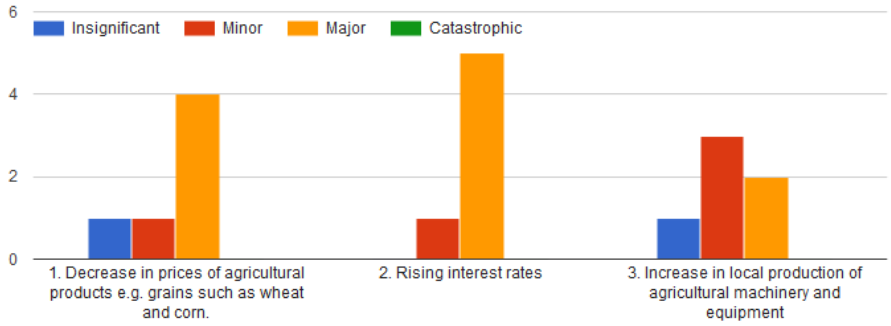
Explanation political risks (optional)

0 reacties

Nog geen reacties op deze vraag.

The impact of the risk factors in Turkey if they occur

Economic Risks

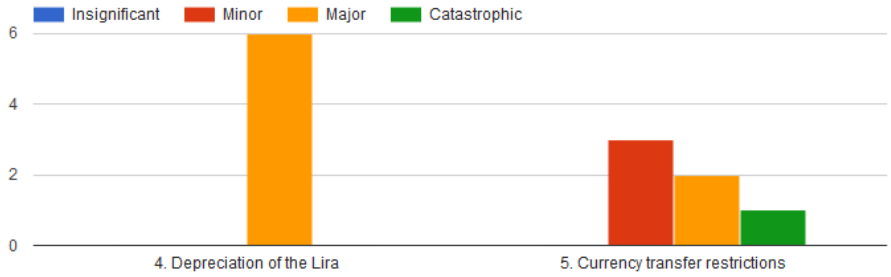


Explanation on the impact of the economic risks (optional)

0 reacties

Nog geen reacties op deze vraag.

Financial Risks



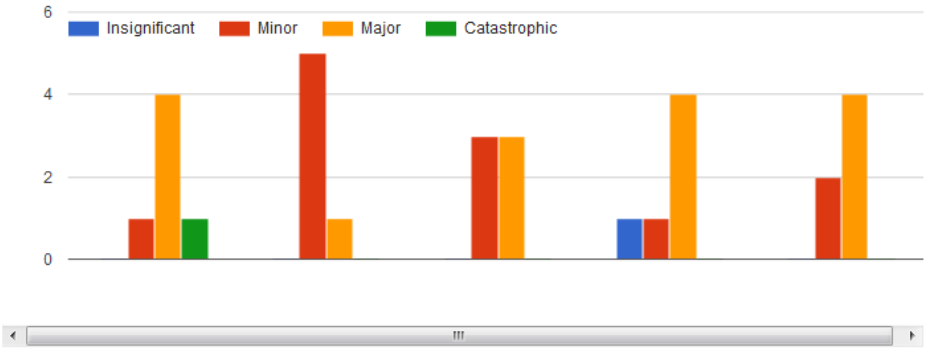
Explanation on the impact of the financial risks (optional)

2 reacties

Turkey has maintained free cap transactions since early 1980s. A sharp interest in interest rates accompanies with further TL depreciation is more likely than restricting the capital movement whose results will be disastrous. I do not think that the government will opt for the latter.

The Lira depreciation is a real threat to our business case locally.

Political Risks



Explanation on the impact of political risks (optional)

1 reactie

To stengthen local economy government may choose to favor local equipment manufacturers (and bann ours)

Do you have any other comments regarding risk management in Turkey that may be valuable for this research?

1 reactie

The Dutch suppliers should hedge themselves against counterparty risks with bank guarantees such as LT.

Appendix IV Interview Z

April 19th 2018

- **Introduction**

Dear mister Z,

Thank you very much for your time to have this interview, concerning my thesis research. The research focuses on risk management for Company X by doing business in Kazakhstan and Turkey. For this interview only the case of Kazakhstan will be discussed.

For both countries I try to identify the most important risk factors that might affect the results of Company X in those countries negatively. The risk factors which I am focusing on are the economic, financial and political risks. After the most important risks are identified, it is the purpose to measure the risks based on the probability that it will occur and the impact the risk will have if it occurs. Thereafter possible strategies to manage the significant risks will be drawn up.

The first step in conducting the research is to identify the most important risk factors for Company X by doing business in Kazakhstan. Given your knowledge and experience, I think that you can provide me with very valuable information in this stage of the research. Therefore I would like to ask you some questions about risks in Kazakhstan. The information that will be collected through this interview will be treated in complete confidence and your response will remain anonymous.

- **General questions**

1. What is your function within your organization?

2. What is your nationality?

- **Risk identify questions**

1. What are according to your opinion **economic** risk factors for Company X by doing business in Kazakhstan, which can negatively affect the turnover of Company X in the country and can you explain them?

2. What are according to your opinion **financial** risk factors for Company X by doing business in Kazakhstan, which can negatively affect the turnover of Company X in the country and can you explain them?

3. What are according to your opinion **political** risk factors for Company X by doing business in Kazakhstan, which can negatively affect the turnover of Company X in the country and can you explain them?

4. By means of several reports such as internal reports of Company X and external reports of different organizations such as banks, companies and governments I have already identified some risk factors. What do you think of these risk factors and do you recognize them? Can you explain why you think it is or it is not a risk factor for Company X operating in Kazakhstan?

Appendix V Survey Kazakhstan

Risk management the case of Kazakhstan

I would like to know your opinion about a number of risk factors by doing business in Kazakhstan. (some agricultural specific factors)

General questions

What is your function within your organization?

Jouw antwoord

What is your nationality?

Jouw antwoord

Do you have experience in - or knowledge of Kazakhstan?

Jouw antwoord

The probability of the risk factors to occur in Kazakhstan

Can you give scores from rare to almost certain for the following risk factors based on the probability that the risk factor will occur in the next 3 years in Kazakhstan? (The answer can not be wrong, it is just your opinion as an expert).

Economic Risks

	Rare	Unlikely	Likely	Almost certain
1. Decrease in prices of agricultural products such as wheat and rapeseeds	○	○	○	○
2. Increase in local production/assembly of agricultural machinery and equipment in Kazakhstan	○	○	○	○
3. Further cooperation on agricultural development between Kazakhstan and China	○	○	○	○
4. High / rising interest rates	○	○	○	○

Explanation economic risks (optional)

Jouw antwoord

Financial Risks

	Rare	Unlikely	Likely	Almost certain
5. Depreciation of the Tenge	○	○	○	○
6. Currency transfer restrictions	○	○	○	○

Explanation financial risks (optional)

Jouw antwoord

Political Risks

	Rare	Unlikely	Likely	Almost certain
7. Continuing legal and institutional failings such as a high degree of corruption and a weak rule of law	○	○	○	○
8. Political instability/conflicts if Nazarbayev (77) has to stop or is not able to continue	○	○	○	○
9. Catastrophic events / conflicts such as a civil war, coup threat, terrorism, cross-border conflicts	○	○	○	○
10. Decrease or ending of the subsidies and other incentives to stimulate the agricultural sector by the Kazakh government	○	○	○	○

Explanation political risks (optional)

Jouw antwoord

The impact of the risk factors in Kazakhstan if they occur

Can you give scores from insignificant to catastrophic for the following risk factors based on the impact that the risk factor will have on a Dutch distributor of agricultural machinery operating in Kazakhstan? (The answer can not be wrong, it is just your opinion as an expert).

Economic Risks

	Insignificant	Minor	Major	Catastrophic
1. Decrease in prices of agricultural products such as wheat and rapeseeds	○	○	○	○
2. Increase in local production/assembly of agricultural machinery and equipment in Kazakhstan	○	○	○	○
3. Further cooperation on agricultural development between Kazakhstan and China	○	○	○	○
4. High / rising interest rates	○	○	○	○

Explanation on the impact of the economic risks (optional)

Jouw antwoord

Financial Risks

	Insignificant	Minor	Major	Catastrophic
5. Depreciation of the Tenge	○	○	○	○
6. Currency transfer restrictions	○	○	○	○

Explanation on the impact of the financial risks (optional)

Jouw antwoord

Political Risks

	Insignificant	Minor	Major	Catastrophic
7. Continuing legal and institutional failings such as a high degree of corruption and a weak rule of law	○	○	○	○
8. Political instability/conflicts if Nazarbayev (77) has to stop or is not able to continue	○	○	○	○
9. Catastrophic events / conflicts such as a civil war, coup threat, terrorism, cross-border conflicts	○	○	○	○
10. Decrease or ending of the subsidies and other incentives to stimulate the agricultural sector by the Kazakh government	○	○	○	○

Explanation on the impact of political risks (optional)

Jouw antwoord

Do you have any other comments regarding risk management in Kazakhstan that may be valuable for this research?

Jouw antwoord

VERZENDEN

Verzend nooit wachtwoorden via Google Formulieren.

Appendix VI Total results of the survey of Kazakhstan

General questions

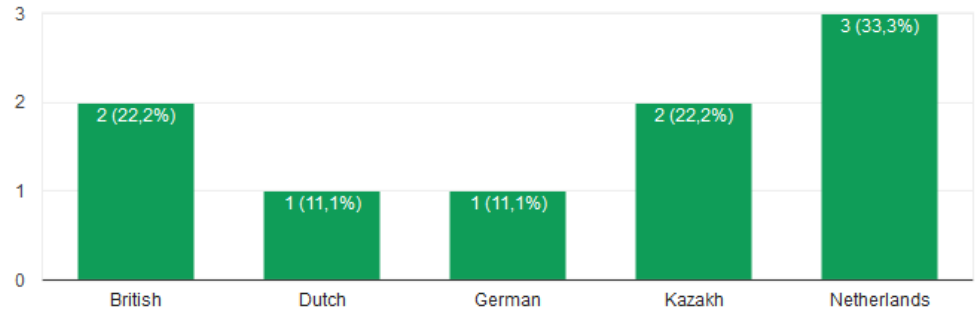
What is your function within your organization?

9 reacties

Reader in Politics
Economic Officer
Operations Officer
Director of Trade & Investment
Engineer
Director
Managing director
Group controller
Finance Director

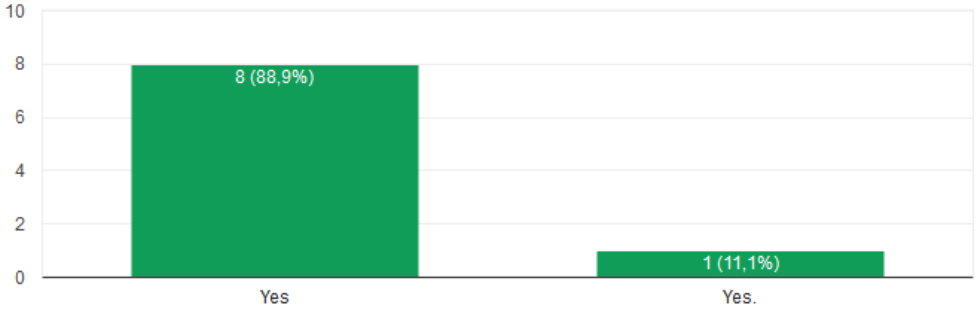
What is your nationality?

9 reacties



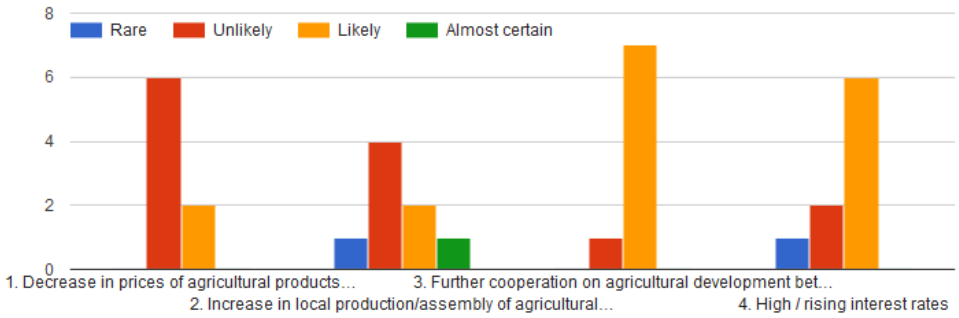
Do you have experience in - or knowledge of Kazakhstan?

9 reacties



The probability of the risk factors to occur in Kazakhstan

Economic Risks

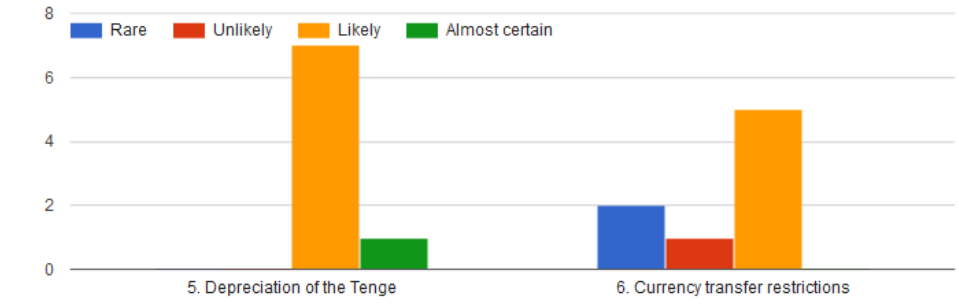


Explanation economic risks (optional)

3 reacties

Agricultural Production is set to increase
I don't know anything about the agricultural market
Decrease of prices of products is not just a KZ issue that stops at the border. So also economic risks from abroad can be imported. In general due to more intensive/efficient use of land the price will drop. On the other hand the demand will increase due to population growth. It can be risky that China enters the equipment market with local produced equipment

Financial Risks



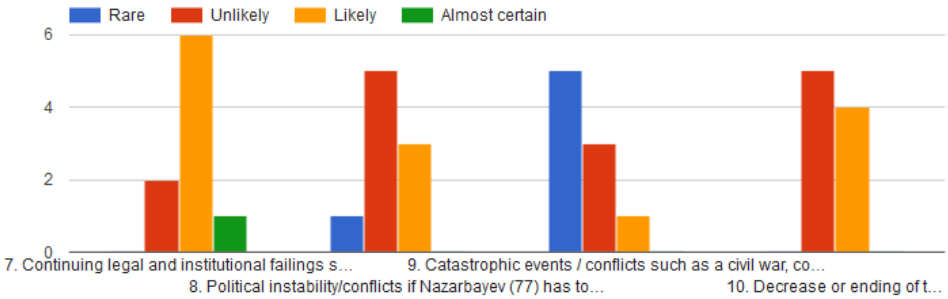
Explanation financial risks (optional)

2 reacties

Financial risks depends on external commodity markets

The currency has been quite unstable over the last years. Oil price development and internal market growth will influence further development of the currency

Political Risks



Explanation political risks (optional)

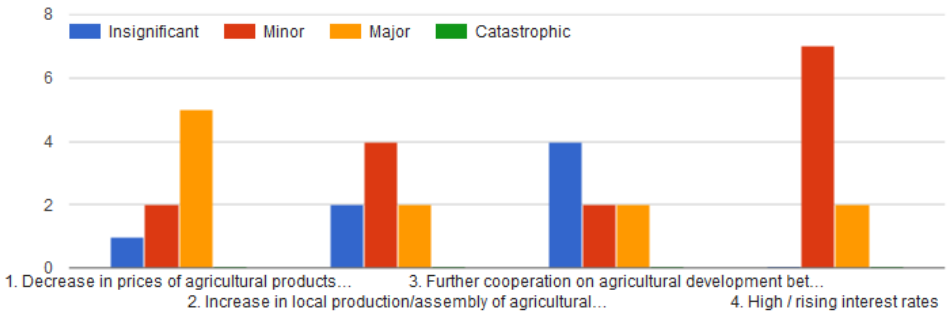
2 reacties

Agriculture remains a priority

Nazarbayev will end his career, but I think he has already protected his heritage by influencing who will become his successor. Subsidies are I believe somewhat diminishing related to the ag sector

The impact of the risk factors in Kazakhstan if they occur

Economic Risks

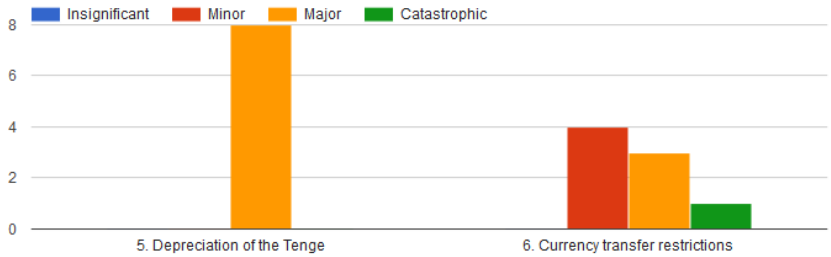


Explanation on the impact of the economic risks (optional)

1 reactie

Agricultural machinary is likely to remain as an important area

Financial Risks

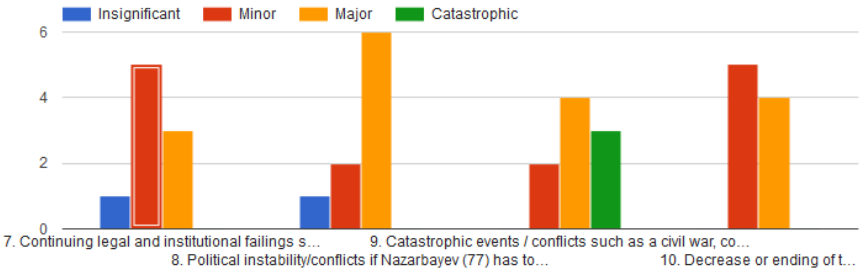


Explanation on the impact of the financial risks (optional)

0 reacties

Nog geen reacties op deze vraag.

Political Risks



Explanation on the impact of political risks (optional)

1 reactie

I think the impact of potitical risks are relatively low. the country is stable and has a stable second layer of government. the country has good relationships with it's neighbours and has no enemies.

Do you have any other comments regarding risk management in Kazakhstan that may be valuable for this research?

3 reacties

Natural risks like draught are likely to have more impact than economic or political risks.

The legal, tax and regulatory framework is developing (and therefor changing) rapidly; everybody doing business in kazakhstan should have a risk management system in place for these aspects

Our key staff members have extensive knowlegde of the country, legal and financing structures. we are depending on our key staff members. that is why we are guiding some potentials on the way up in the organisation.

Appendix VII additional figures

Country			WORLD							
Time			2012	2013	2014	2015	2016	2017	2018	2019
Commodity	Variable									
Wheat	Production	i	656.892,63	712.627,57	730.760,51	736.154,90	759.371,73	744.155,04	755.511,74	763.320,96
	Consumption	i	687.224,43	697.352,63	708.283,12	715.976,78	742.904,85	754.244,36	753.154,29	760.605,08
Maize	Production	i	873.297,02	1.015.684,41	1.034.725,43	1.005.149,49	1.034.329,01	1.042.428,65	1.050.807,01	1.066.211,32
	Consumption	i	891.377,70	964.862,91	997.207,01	1.008.199,04	1.039.860,64	1.041.340,75	1.058.328,25	1.072.232,01
Time			2020	2021	2022	2023	2024	2025	2026	
Commodity	Variable									
Wheat	Production	i	771.415,27	780.003,15	788.145,65	796.302,33	804.416,09	812.380,98	820.804,35	
	Consumption	i	767.946,89	775.853,93	783.207,99	791.056,76	798.940,81	806.944,59	815.280,95	
Maize	Production	i	1.078.870,90	1.096.046,76	1.109.705,64	1.123.031,60	1.136.042,25	1.149.420,05	1.163.711,03	
	Consumption	i	1.083.198,29	1.096.047,86	1.106.644,62	1.119.646,46	1.132.147,89	1.146.950,72	1.161.154,76	

Figure 32. Worldwide production and consumption of wheat and maize (OECD/FAO, 2017)

Country		WORLD										
Time		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Commodity	Variable											
CEREALS	World Price	..	..	..	..	..	..	..	..	..	..	..
Wheat		271.92	214.82	195.33	200.52	202.52	208.20	215.89	225.33	232.72	238.52	243.58
Maize		171.51	164.46	157.17	156.48	161.13	164.92	173.46	179.37	183.84	185.53	190.17

Figure 33. Price forecast of wheat and maize (OECD, 2018)

Country		WORLD			
Year		2013	2014	2015	2016
Commodity	Variable				
Wheat	World Price	318,49	271,92	214,82	195,33
Maize		203,24	171,51	164,46	157,17

Figure 34. Historical prices of wheat and maize (OECD, 2018)

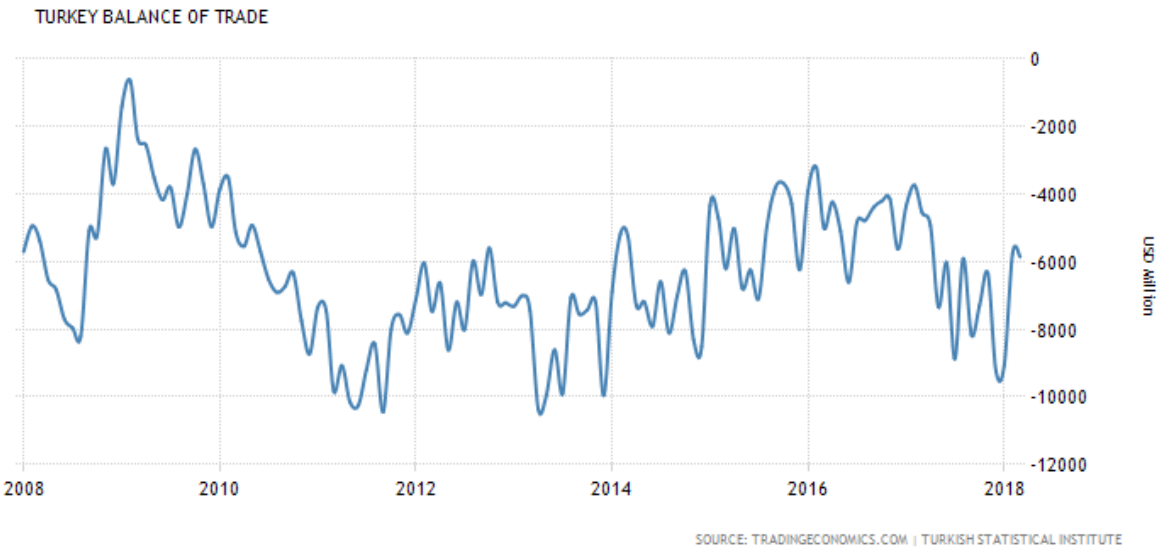


Figure 355. Trade balance of Turkey (TradingEconomics, 2018)