

Country / Market Risk Management Survey 2008

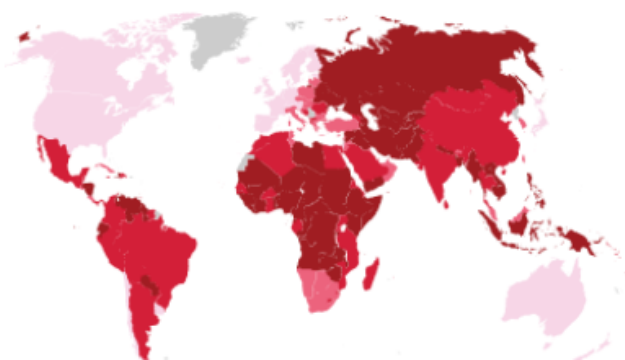


Table of Contents

Executive Survey Summary – Major Findings	4
Introduction / Background	5
Detailed Survey Results	8
Question 1: Your branch of business	8
Question 2: Type of enterprise / organization	9
Question 3: Size of organization (number of employees)	10
Question 4: Your current function / position	11
Question 6: Do you have a special budget for the purchase of risk management information?	13
Question 7: Is a Risk Management System in place / implemented in your enterprise / organization?	14
Question 8: To whom do you report / communicate on risks - INTERNAL?.....	15
Question 9: To whom do you report / communicate on risks - EXTERNAL?	16
Question 10 & Question 11: Please indicate your regional internationalization strategies for your CURRENT and FUTURE business per global region	17
Question 12: Do you use country / market risk information / data?.....	20
Question 13: Which risk indicator classes do you take into account for country / market risk analysis and management?.....	21
Question 14 Please indicate the source of country / market risk information / data you use	23
Question 15 Please indicate the reporting format of country / market risk information / data you use	24
Question 16: How useful / applicable is the country / market risk information / data for you	25
Question 17: How may the usefulness / applicability of information be improved?.....	26
Question 18: What do you think about the costs / benefit ratio of the provided country / market risk information?.....	27
Final Remarks and Further Activities	28

Dear survey participants

I'm pleased to present you our first survey on Country / Market Risk Management and we would like to thank the many participants and their companies for the investment of time required to provide the survey responses.

All information was anonymously gathered via an online survey in order to protect the privacy of the participants. The survey was conducted between June and August 2008 among 221 experts. Over all 51 experts (participation rate ~ 24 %) gave their valuable input regarding the topic. This high participation rate to this year's survey underscores the substantial interest on the topic.

Beside of me the survey team consisted of business risk management and business development professionals around the world. Special thanks to:

Ms. Sandra Reineri, Sao Paulo, Brazil
Mr. Xavier Giard, Beijing, China
Mr. Marco Angliker, Zürich, Switzerland

I appreciated our fruitful discussions and would like to thank all of you for your efforts and contribution to our first country / market risk management survey.

We hope you will find the information relevant and helpful in identifying best practice and trends as well as providing context to help you benchmark your company's county / market risk management.

If you have any questions, comments or would like to discuss the survey or any related risk management topic further, please do not hesitate to contact me via email (zizekc@gmail.com) or you may call me directly at +41 (0)76 404 3042.

Sincerely yours,
Dr. Claus J. Zizek

Executive Survey Summary – Major Findings

Participation in this year's survey included firms from nearly all sectors that varied in size from local to global players. Strongest participation is observed by the sector "Biotech / Chemistry". A good mix between national and multi-national enterprises with the whole bandwidth of employees was reached. The majority of the participants are working in a risk management position. Over the half of the participants has the possibility to purchase risk related information or planed to do so in the future.

Participation of all organizational levels from expert to top management level indicates that the survey was in general form great interest. This is not surprising because approximately two third stated that their employers already have risk management enterprise-wide in place. Internally they are mainly reporting on risks to the top management and externally to stakeholders and regulatory authorities.

Two third of the participants are using Country & Market Risk Management information for current and for future business. The main current and future strategy for doing business in foreign market is exporting followed by wholly owned subsidiaries. Market penetration via franchising and joint ventures is identified as trend for the future. Current and future top regions are Europe & Central Asia and East Asia & Pacific.

Because low hanging fruits are already picked a slight future trend is identified to increasingly penetrate fast growing emerging markets. The biggest plus is seen for future markets in the South Asia area. In order to assess country / market risk, political and general economic indicators are playing a major role while cultural indicators are ranked far behind on last place.

Most risk information for country / market risk monitoring and benchmarking is purchased from consulting services and commercial data providers. The information is mainly provided as expert generated report or stand – alone software tools. The majority of participants rate the generated report as somehow useful or useful but not directly applicable whereas the corresponding cost – benefit ratio is valued as somehow acceptable. One-fifth is not satisfied with the cost – benefit ratio.

Introduction / Background

Globalization is one of the key characteristics of the world economy over the last 20 years. Over the period, trading cross-boarder was facilitated (increasing trade volumes) and also foreign direct investment (FDI) inflows to new markets have increased by more than 30-fold. Worldwide around 60,000 parent enterprises maintain more than 500,000 affiliates out of their home country.

The reported gross production output in the year 2005 was approx. USD 2.600bn, securing more than 35 million jobs.

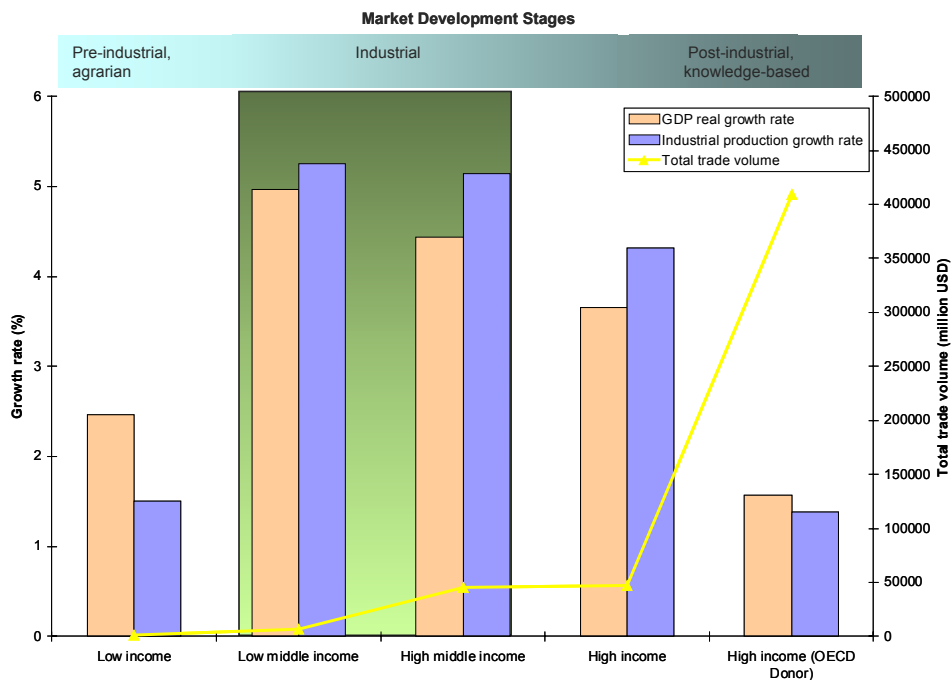


Fig 1. Growth rates and total trade volume according country income class

In classical theories, market development comprises three stages. These are characterized as pre-industrial, industrial and post-industrial phase. Figure 1 shows that along with advancing market development; a transition from poorly industrialized agrarian societies to finally technology and service societies takes place.

Outstanding are the high growth rates for countries with low-middle and high-middle gross domestic product (GDP) that are in the stage of industrialization. Along with growing Per Capita Income of national economies, the share of employment grows in high-tech and service branches.

On the contrary, trade volumes for countries in the "high income (OECD donor)" GDP subclass are disproportionately higher compared to countries in other subclasses. This is the driving force of globalization.

And still a large number of enterprises perceive their chances in these markets. It is evident in figure 1 that especially countries with low-middle and high-middle Gross Domestic Product (GDP) - the so called new emerging markets — are showing high growth rates whereas the trade volumes are still expandable compared to countries with high GDP (e. g. OECD Donors). Figure 2 entails a comparison of the top 20 countries in terms of foreign direct investment (FDI) inflows¹.

Significant growth rates apply for the so-called “BRIC countries - Brazil, Russia, India and China”.

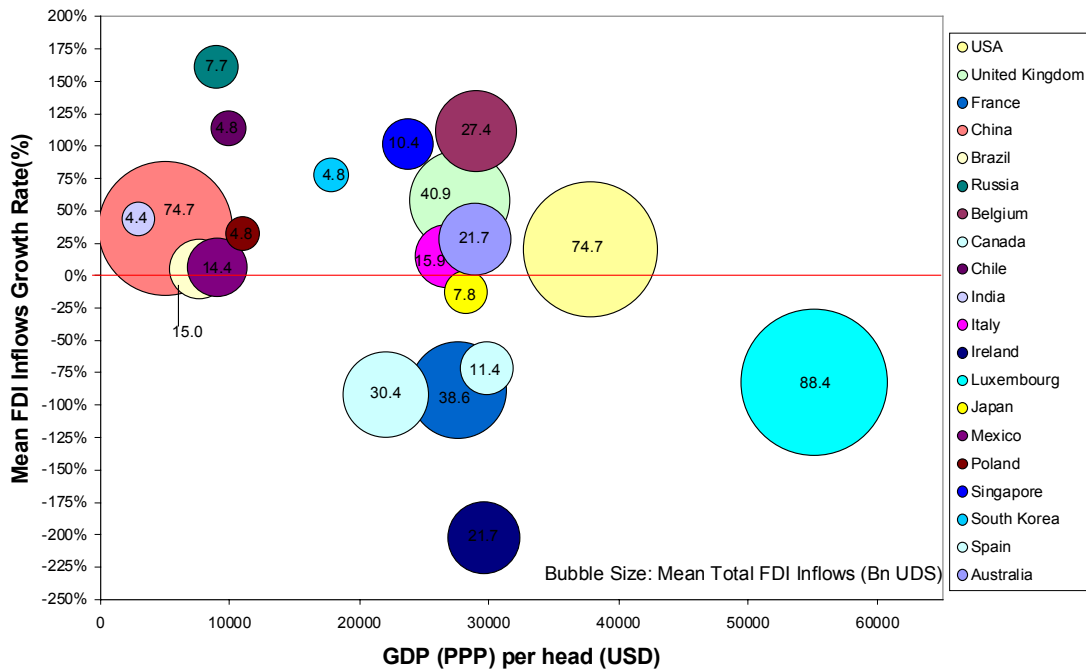


Fig. 2 Foreign direct investment inflows - Top 20 countries

These countries that several years ago have been fairly marginalized now appear highly attractive to foreign direct investment.

¹ World Investment Report 2005

Enterprises that want to participate form the trend have to elaborate their internationalization strategy. Feasible market entry options are:

- Exporting
- Turnkey contracts
- Licensing
- Franchising
- Affiliates
- Joint ventures
- Wholly owned subsidiaries

The most effective market entry option for each region / country has to be chosen in order to balance chances and risks. Engagements in different markets are not only used to size growth opportunities but also to diversify risk.

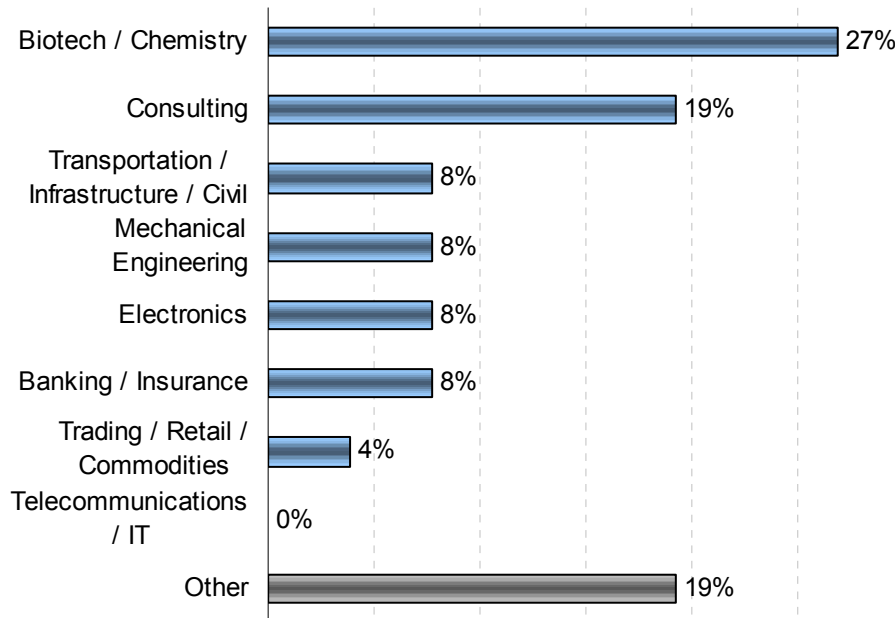
However, the chances in the new markets are opposed by significant hazards. Country / market risk management as integral part of a holistic enterprise – wide risk management approach is gaining more and more importance. The magic words are "Market Preparedness" and "Risk Awareness".

This anonymous online survey was prepared to better understand best practice and further needs in the field of country / market risk management in the expert community.

Detailed Survey Results²

Question 1: Your branch of business

The survey's goal to get a broad branch affiliation was reached. Ranked on first place is the biotech / chemistry sector (27 %) followed by consulting sector (19 %).



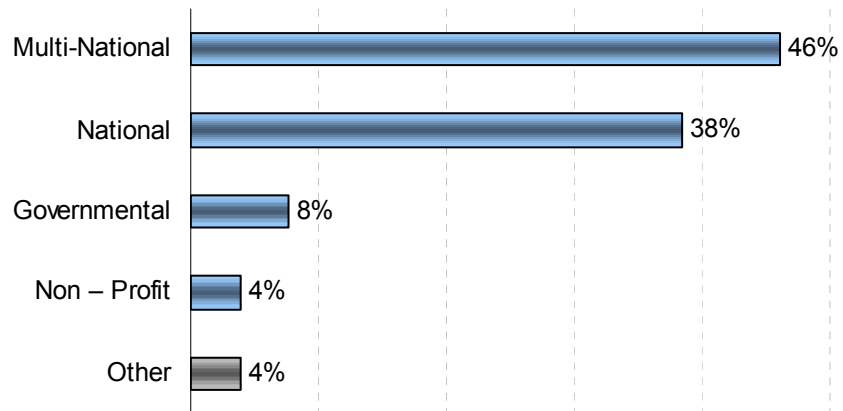
In the category Other (19 %) participants mentioned branch affiliations like Military, Print Media, Health and Public Institutions. Unfortunately no participants from the Telecommunication / IT sector were contributing to the survey.

In general strong industry participation (48 %) may be a sign that risk management is gaining more importance in industrial sector.

² All reported values are automatically rounded up/down to whole numbers. So the sum of all counts may not exactly give 100 % participant in all cases.

Question 2: Type of enterprise / organization

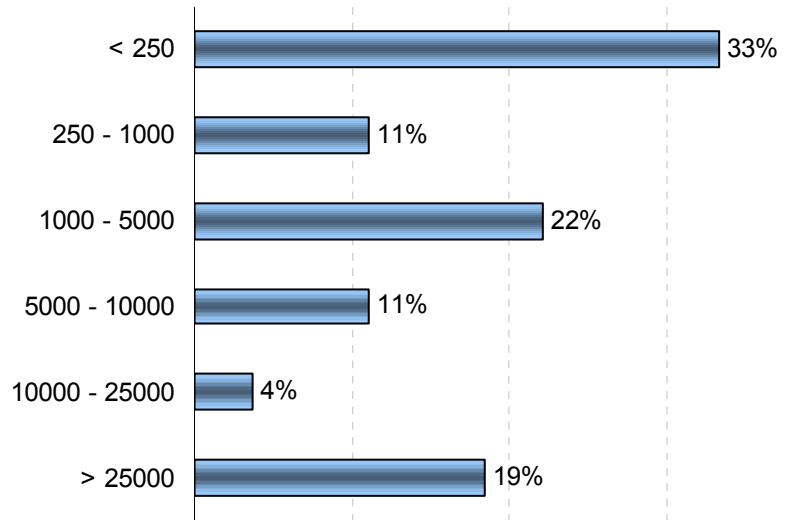
In the study we have quite a good mix between multi-national (46 %) and national (38 %) enterprises. Participants from governmental and non-profit organizations are completing the profile.



In general also national enterprises are exposed to global competition and therefore the high participation rate is not really astonishing.

Question 3: Size of organization (number of employees)

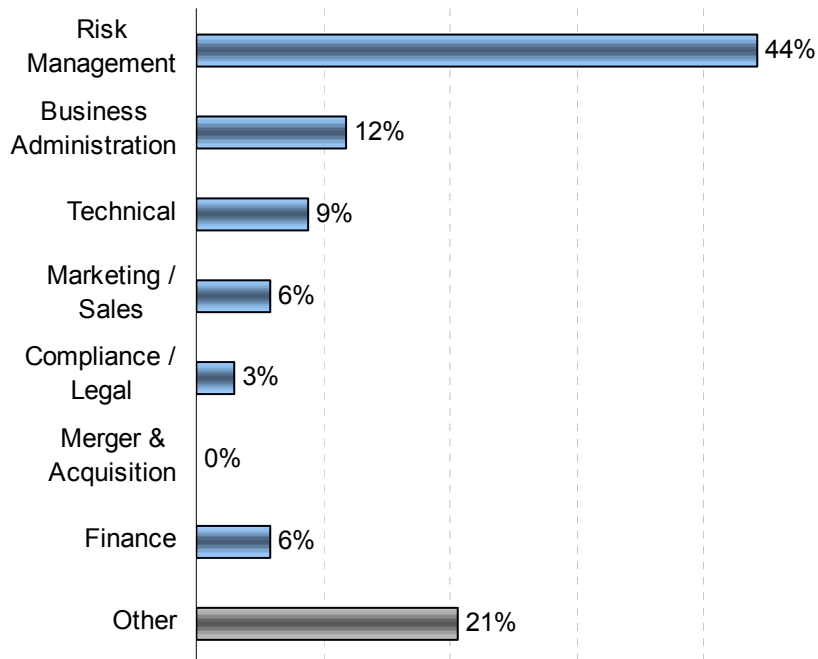
Small and medium sized companies up to 5000 employees are representing the biggest group in the survey (66 %) whereas the group of companies below 250 employees ranked on first place (33 %).



But also enterprises over 5000 employees are represented very well in the survey (33 %). It's evident that especially big players contributed disproportionately high (19 %).

Question 4: Your current function / position

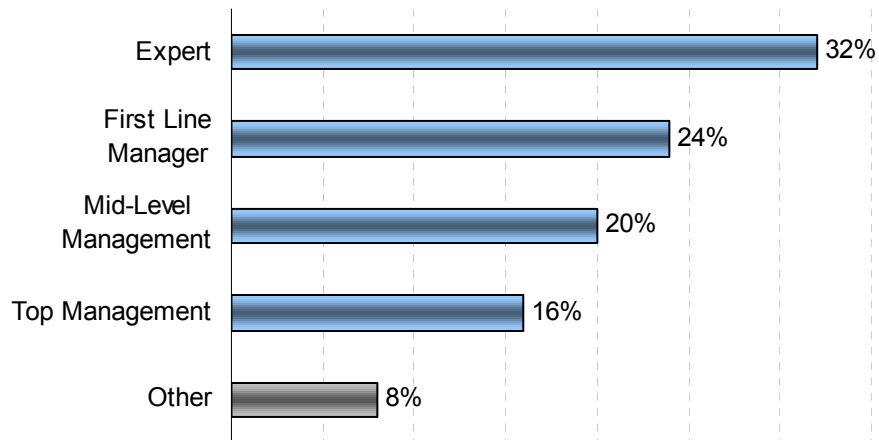
Strong participation of risk management experts (44 %) was attained. Another 12 % are currently working in business administration.



In the category Other (21 %) functions like Security Officer, Lead auditor, Corporate Quality Management, Project Manager and Consulting Services are mentioned.

Question 5: Level of responsibility in the organization

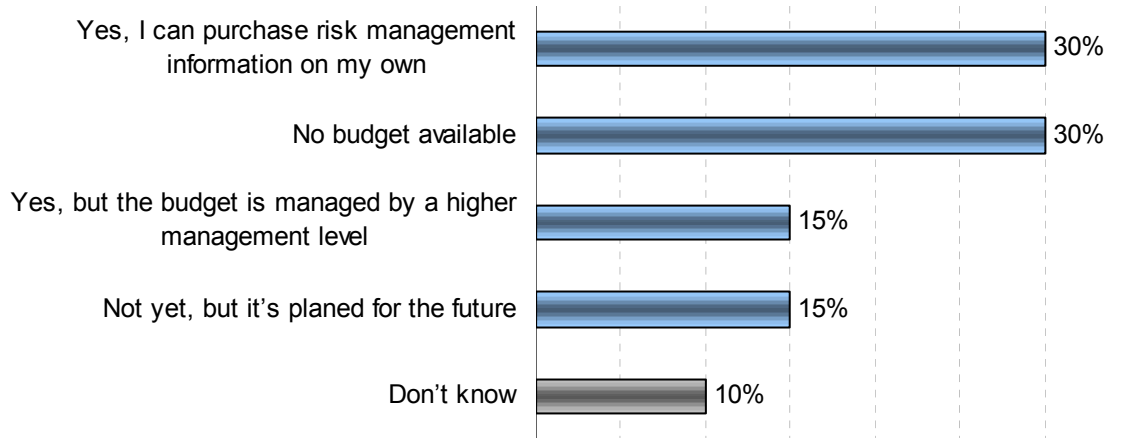
In the study we have a quit good mix of all organizational levels.



Strongest group are the experts (32 %) followed by the first line managers (24 %) but we had still significant participation from the top management level (16 %).

Question 6: Do you have a special budget for the purchase of risk management information?

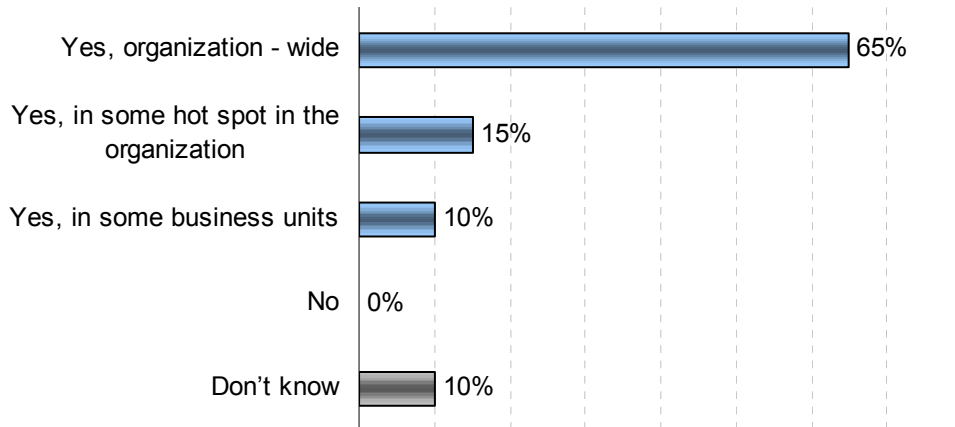
Overall 45 % of the participants have the possibility to buy risk management information whereas 30 % are able to buy it on their own. Another 15 % of the participants state that they have planned to have budget available in the future.



Furthermore 30 % of the participants stated that their organization don't provide budget to buy risk related information.

Question 7: Is a Risk Management System in place / implemented in your enterprise / organization?

Most of the participant's enterprises (65 %) already have an organization – wide risk management in place. Others stated that risk management partially is in place in some business units (10 %) or some hot spots in the organization (15 %). This result clearly points out the significance of the topic "Risk Management" in the participating enterprises.



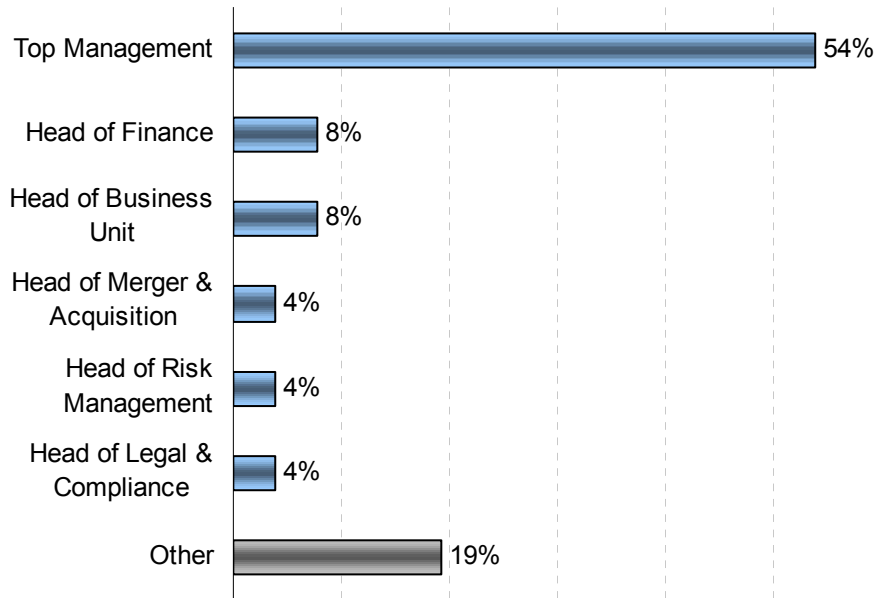
Which Risk Management Framework do you use?

Only seven participants answered this additional question. As enterprise -wide risk management framework in use ONR 49000 (Risk Management for Organisations and System – Practical use of ISO/DIS 31000) was mentioned. But also "self-made" not in detail specified solutions are in place.

For technical risk management "FMEA for Automotive" and not in detail specified standards for Environmental, Health and Safety (EHS) management are mentioned.

Question 8: To whom do you report / communicate on risks - INTERNAL?

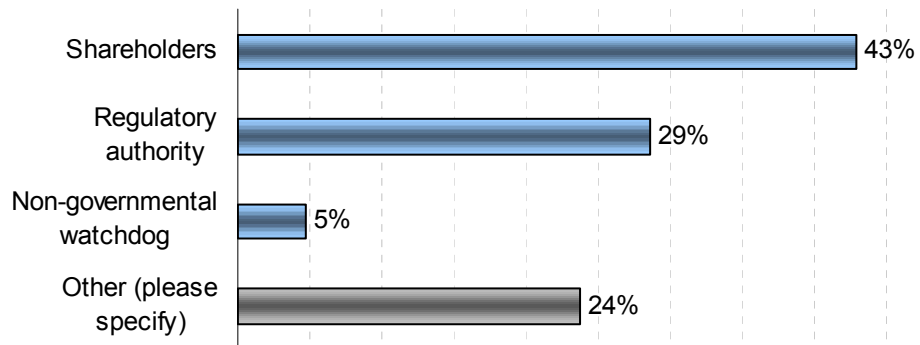
As expected from the feedback given in question 7, most participants (54 %) are reporting to top management on risks.



In the category Other several participants stated that they report to the “Board”. One participant mentioned a “global department of operations”. Some participants state that they don’t have direct internal reports.

Question 9: To whom do you report / communicate on risks - EXTERNAL?

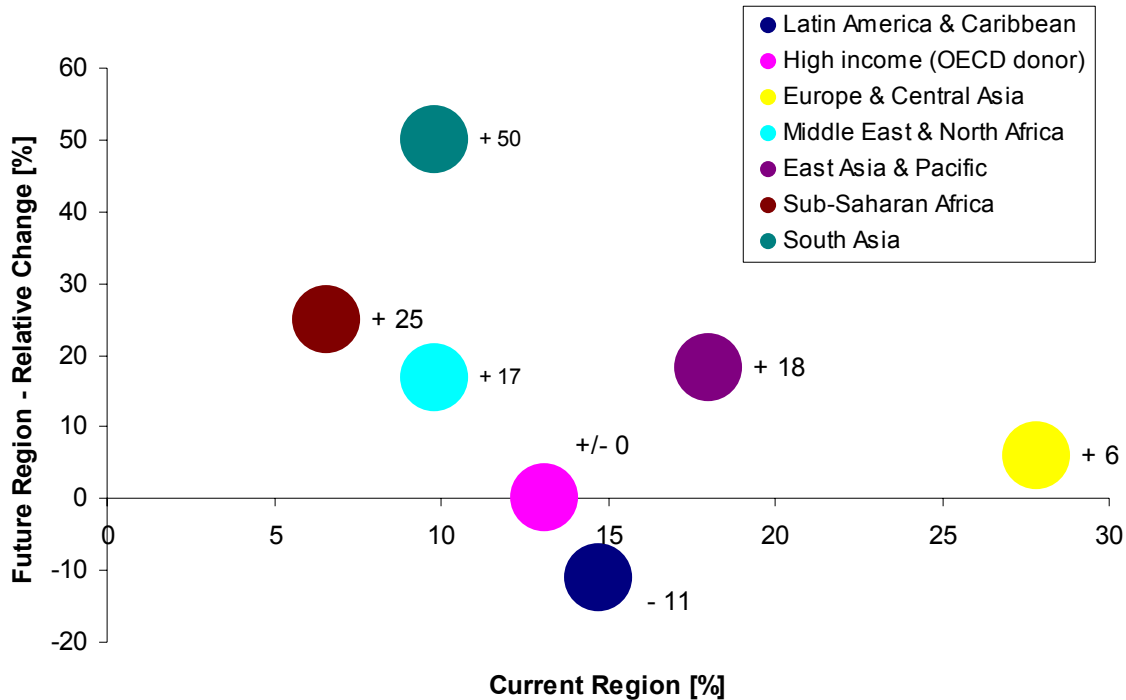
Externally the majority has to report to shareholders (43 %) and regulatory authorities (29 %).



In the category Other a participant stated that he is reporting to an “Auditor”. One participant mentioned a not in detail specified “Department”. The rest in this category states that they don’t have direct external reports.

Question 10 & Question 11: Please indicate your regional internationalization strategies for your CURRENT and FUTURE business per global region

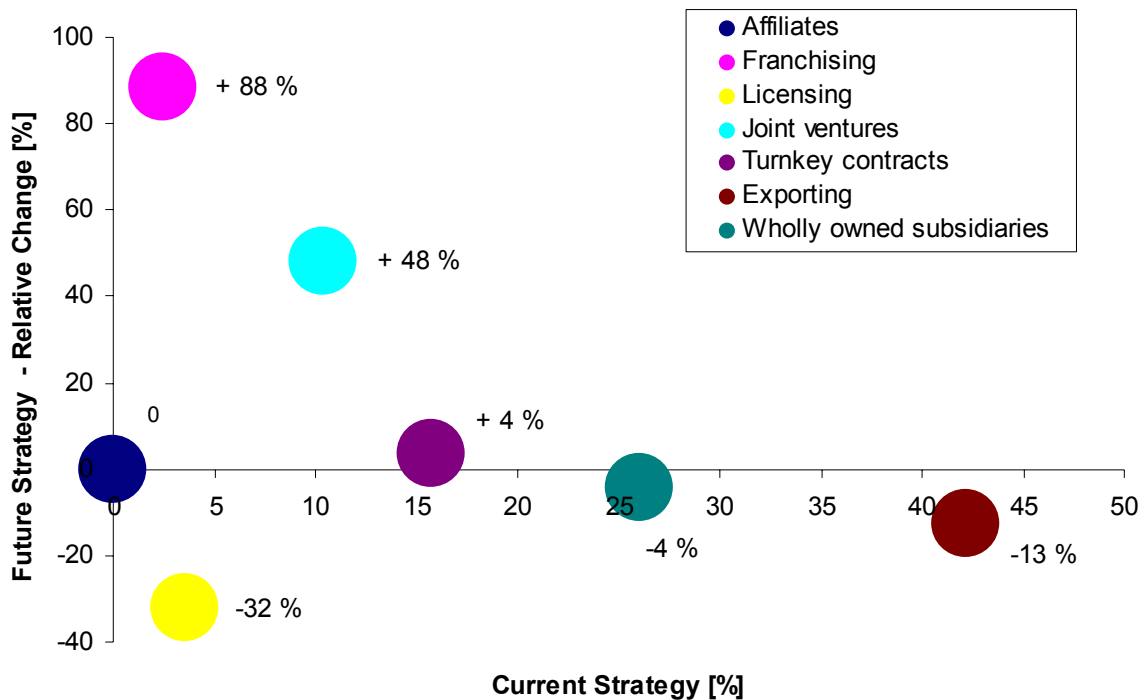
In order to show relative changes in the internationalization strategies (CURRENT vs. FUTURE) data of question 10 and 11 is combined. Here in these two plots the CURRENT status is given on the x – axis while the relative change of the status in the future is given on the y – axis.



It is evident that the regions Europe & Central Asia (28 %) and East Asia & Pacific (18 %) are currently the markets regions of interest. The region Sub-Sahara Africa (7 %) is from lowest importance at the moment. In the future major relative changes are expected in low governance regions. Biggest change is expected in the region South Asia (+ 50 %), which has in total the biggest impact, and Sub-Sahara Africa (25 %). The only region that is less attractive in the future is Latin America (- 11 %).

This might be seen in the context that in Las Americas private owned companies have been fully and partially nationalized lately. This affects for sure the future inflows of foreign direct investments (FDI) to the region.

The next plot shows the overall market entry strategies. In general exporting is the most important market entry strategy (42%) followed by wholly owned subsidiaries (26 %). Affiliates (0%) with a voting stock lower then 50 % does not have any importance for the participants.

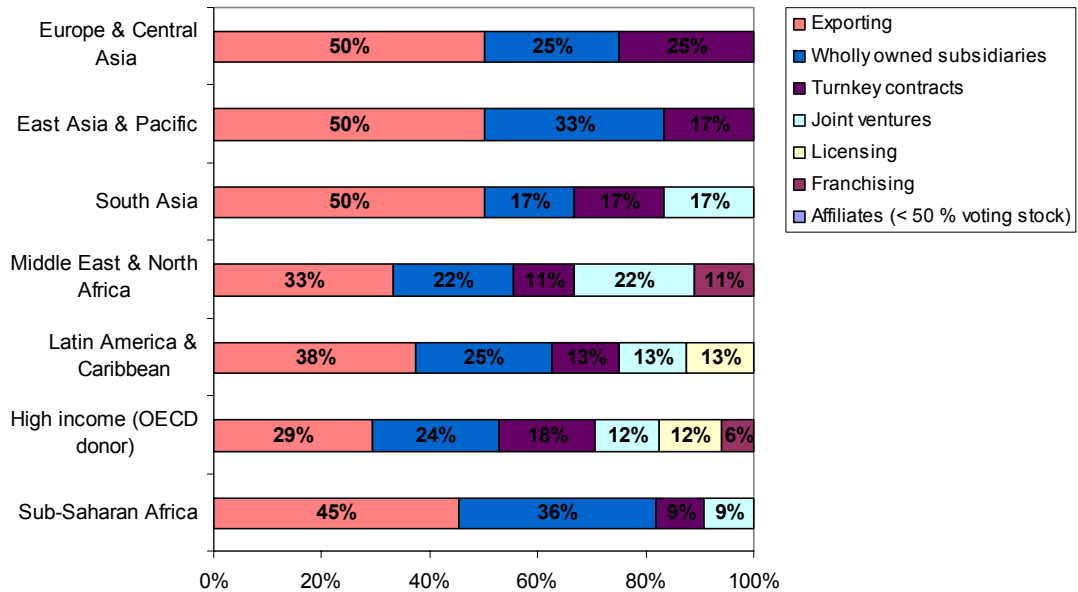


According to survey results licensing (- 32 %) and exporting (-13 %) are expected to lose importance as market entry option. Biggest relative changes are expected in franchising (+ 88 %). But as trend for the future with reasonable impact forming Joint Ventures (+ 48 %) is identified. This conclusion may be linked to the fact that the participants state to focus more on markets in low governance zones.

Forming Joint Ventures are a possibility to fast step into a new market, to overcome local bureaucratic hurdles and share risk of doing business with the local partner(s).

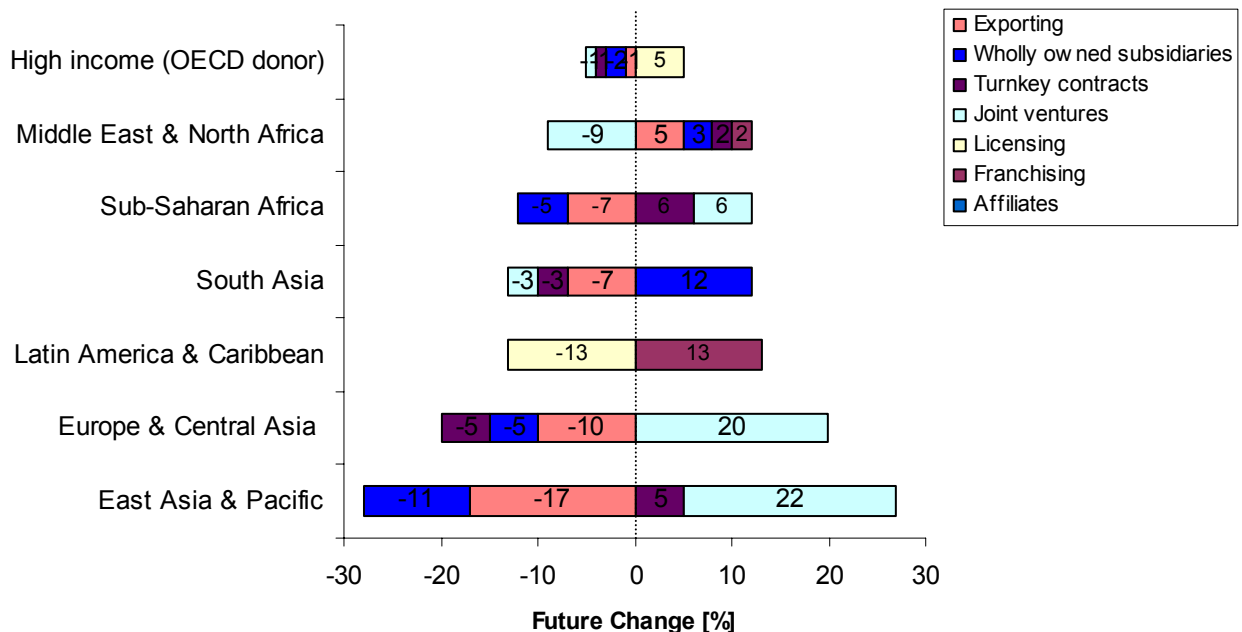
The following plots show the regional CURRENT and FUTURE changes in market entry strategies in detail. As already mentioned above Exporting will loose importance whereas building a Joint Venture (JV) will gain importance in doing business.

Overview of CURRENT strategies per region



These changes are most evident in the regions Europe & Central Asia (exporting: – 10 %, JV: +20 %) and East Asia & Pacific (exporting: – 17 %, JV: +17 %).

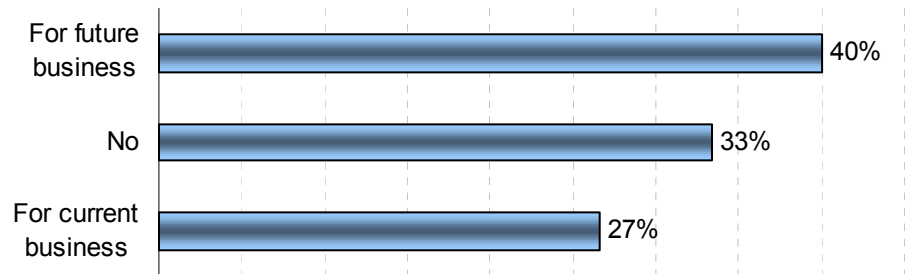
Overview of FUTURE changes in strategies per region



Furthermore it stands out that in the region of South Asia doing business via wholly owned subsidiaries will significantly gain more importance (+12%) and franchising (+13 %) will be much more important in the region Latin America & Caribbean in the future.

Question 12: Do you use country / market risk information / data?

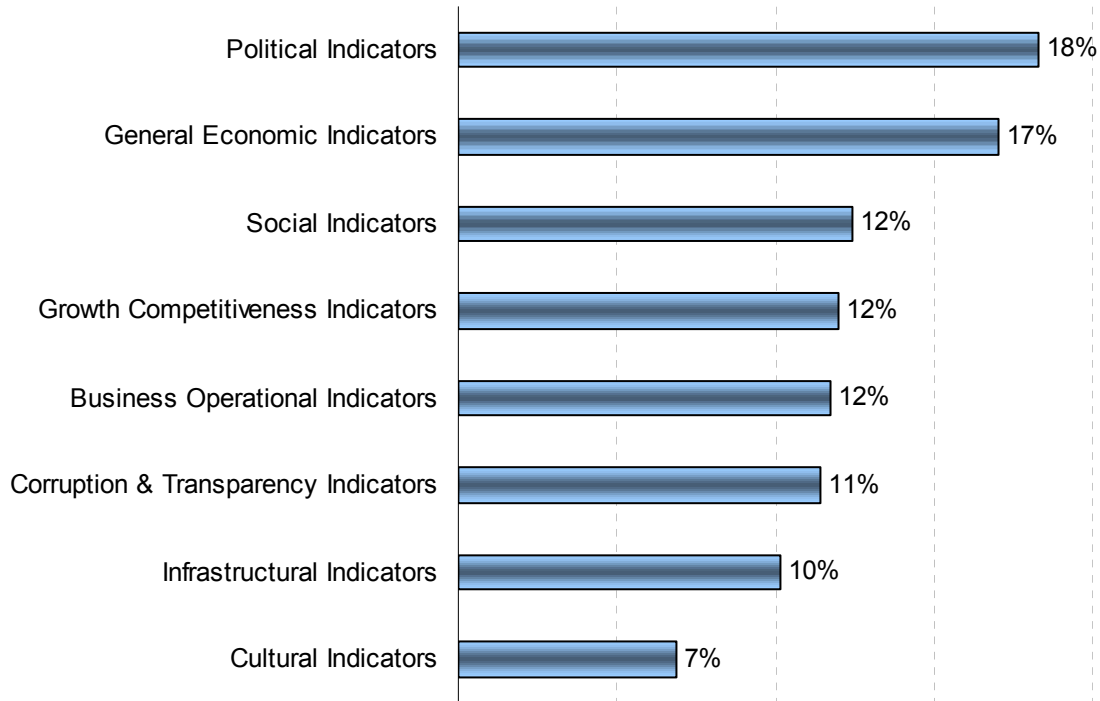
The majority of the participants are using the market / country risk information for their current (40%) and future (27 %) business.



A minority doesn't use risk related information (33%).

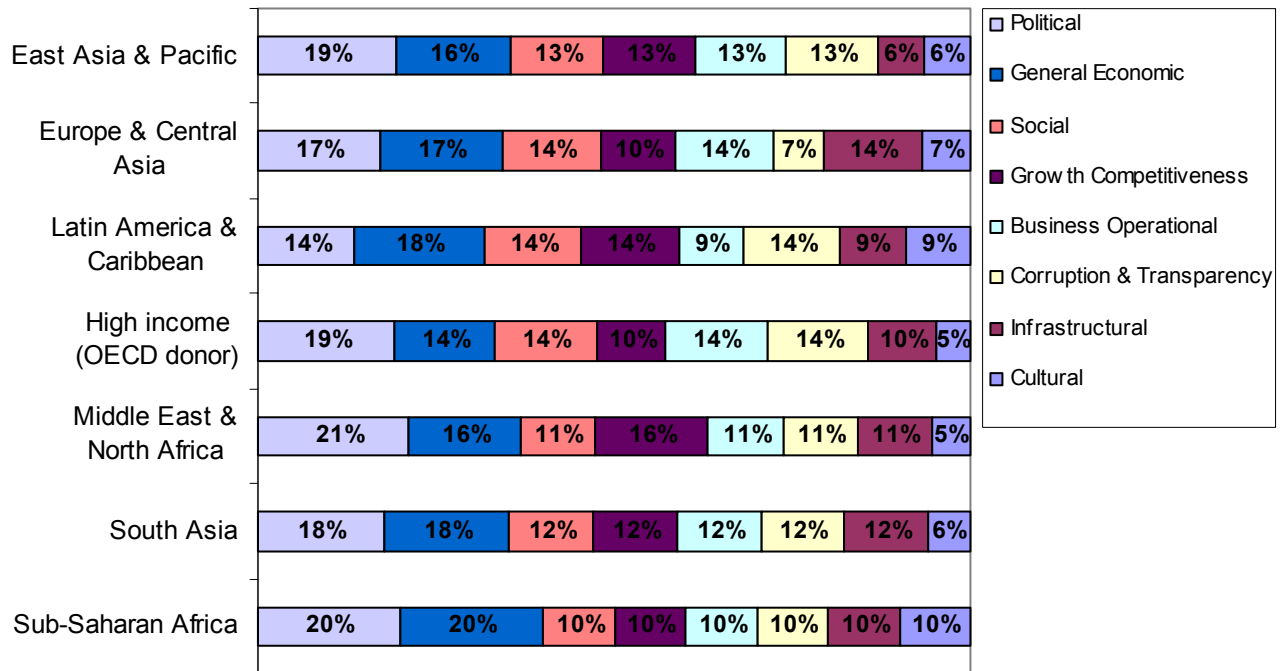
Question 13: Which risk indicator classes do you take into account for country / market risk analysis and management?

It is evident that all risk indicators are used for market / country risk assessment (difference between the most and less used indicator is only 11 %). Political indicators (18 %) followed by general economic indicators (17 %) have the highest and cultural indicators (7 %) the lowest importance.



The detailed regional comparison shows again that all indicators are consistently used in all regions.

Overview of risk indicators per region



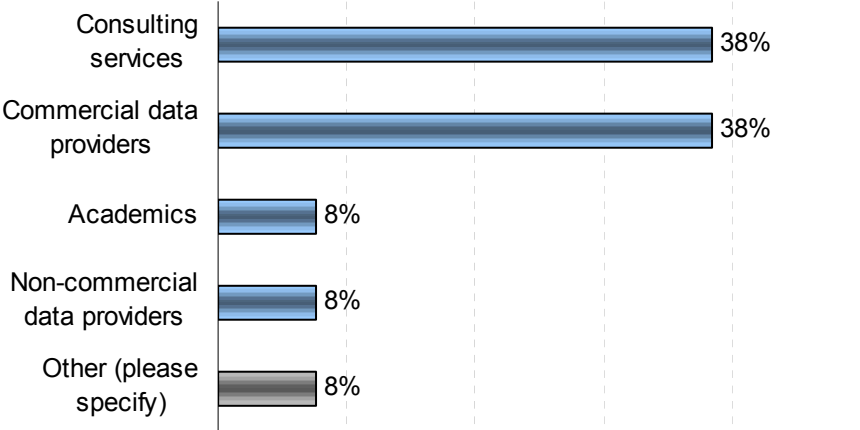
It is also interesting to compare the risk indicator profiles of the region High income (OECD Donor) with the other regions. Therefore correlation analysis is applied.

Region	East Asia & Pacific	South Asia	Middle East & North Africa	Europe & Central Asia	Latin America & Caribbean	Sub-Saharan Africa
Correlation with High income, OECD donor	88%	82%	70%	64%	59%	50%

Best profile fit is obtained for the regions East Asia & Pacific (88 %) and South Asia (82 %) whereas Latin America & Caribbean (59 %) and Sub-Saharan Africa (50 %) are ranked on the two last places.

Question 14 Please indicate the source of country / market risk information / data you use

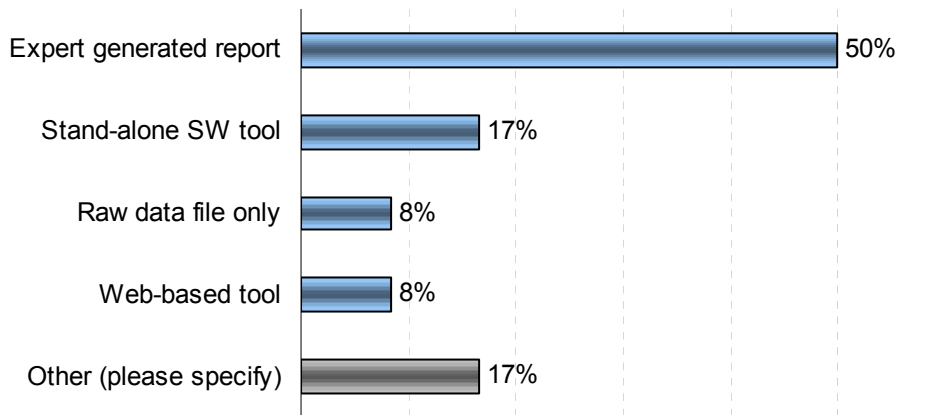
Needed country / market risk information is mainly purchased / obtained by consulting services (38 %) and commercial data providers (38 %).



Other sources are form minor importance.

Question 15 Please indicate the reporting format of country / market risk information / data you use

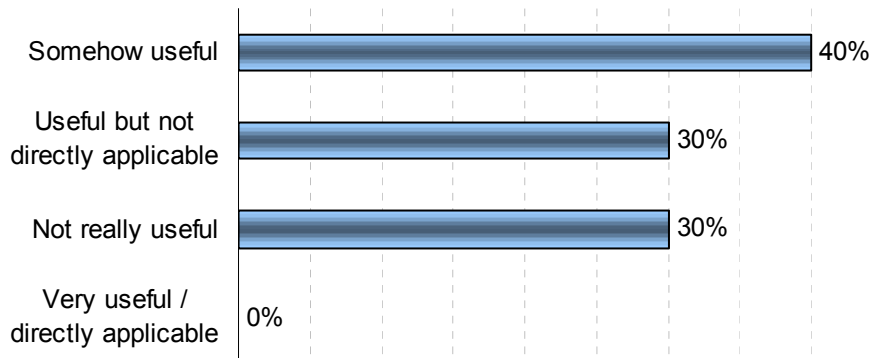
The provided data is mainly obtained as expert generated report (50 %). Stand – alone Software Tools (17 %) are also in use to get information / reports.



Additionally some participants mentioned password - protected intranet sites (customized solutions), specific company internal risk newsletters and risk management alerts.

Question 16: How useful / applicable is the country / market risk information / data for you

Most participants rated the provided information as somehow useful (40 %) or useful but not directly applicable (30 %). But the quality of the information seemed to be not satisfactory in all cases.



Also a significant number of participants stated that the information is not really useful (30 %).

Question 17: How may the usefulness / applicability of information be improved?

The following input was given from the participants to improve the services and / or reports:

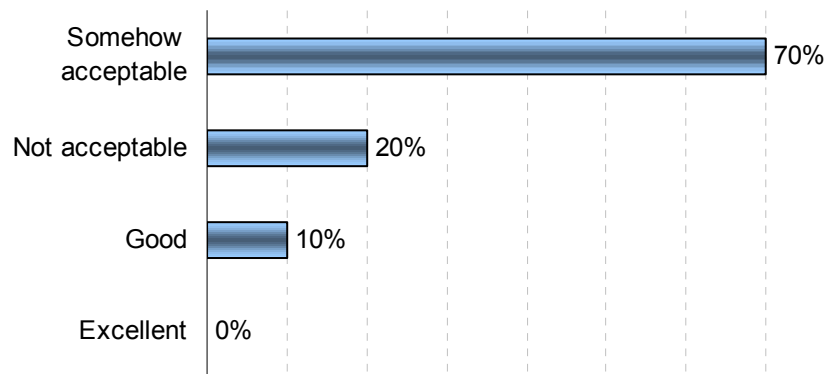
- More sector – specific indicators
- Country specific detailed analysis
- More cultural indicators
- Web – based tools to generate reports online
- More information how to treat specific risks

One participant mentioned that the entry strategy has to be tailored for each specific country and company specific needs. That's true - every company that wants to enter new market has to carefully analyze its own capabilities and goals.

There is for sure no unified approach for all. But nevertheless country / market risk information is an important part of the puzzle and should be reviewed for all internationalization activities.

Question 18: What do you think about the costs / benefit ratio of the provided country / market risk information?

Most of the survey participants rated the cost – benefit ratio of the provided information as somehow acceptable (70 %) or good (10 %).



But there are also participants that rated it as not acceptable (20%).

Final Remarks and Further Activities

Again we like to thank all the participants very much for their participation and their valuable input to the survey.

We decided to continue our activities in the MERCOSUR / MERCOSUL area and therefore prepared a Spanish and Portuguese version of the survey.

Disclaimer & Terms of Use

The survey results are based solely upon the information provided by the participants. They contained herein is provided "as is," and we make no express or implied representations or warranties regarding the results or the information. In an anonymously conducted survey there is no chance to verify the reliability of the given information. Therefore it is limited in nature, and does not comprehend all matters relating to county / market risk management that might be pertinent to your business. These survey results should not be viewed as a substitute for other forms of analysis that management should undertake to determine an appropriate internationalization strategy for their enterprises. Your use of these survey results and information contained herein is at your own risk. These survey results are solely for your informational purposes and internal use and cannot be reproduced or redistributed without written consent. For more information, please contact me.