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**WORLD EVENTS AND MARKET'S CHANGES IMPACT TO
EMPLOYEE COMMERCIAL AWARENESS OF ENTERPRISES
ВЛИЯНИЕ МИРОВЫХ СОБЫТИЙ И РЫНОЧНЫХ ИЗМЕНЕНИЙ
НА КОММЕРЧЕСКУЮ СОЗНАТЕЛЬНОСТЬ РАБОТНИКОВ
ПРЕДПРИЯТИЙ**

Summary. Keeping up with the political and economic news isn't everything when it comes to employee commercial awareness. Staff needs to be able to relate global events and market changes to the sector and enterprise you're applying to. This article has looked at the international financial markets open to enterprises and the macro-economic factors affecting those markets.

Key words: *commercial awareness, staff, enterprise, financial markets.*

Аннотация. *Быть в курсе политических и экономических новостей - это еще не все, когда дело доходит до коммерческой сознательности персонала предприятия. Персонал должен уметь связывать глобальные события и рыночные изменения с тем сектором и предприятием, на котором они работают. В этой статье рассматриваются*

международные финансовые рынки, открытые для предприятий, и макроэкономические факторы, влияющие на эти рынки.

Ключевые слова: коммерческая сознательность, персонал, предприятие, финансовые рынки.

Introduction. As enterprises expand internationally, they come into increasing contact with the world's financial markets. Foreign exchange, bonds, shares, loans are all part of the financial markets where enterprises and governments raise money. And they are all highly sensitive to interest rates - which are of great concern to enterprises which are big users of debt. So if you are talking to the finance director of a client enterprise or someone who works in an enterprise's treasury department, you can discuss interest rates. What follows is a simple explanation of how these things are all interlinked.

The purpose of the article. Influence of understanding global events and market changes relation to the enterprise and employee commercial awareness.

Research results. In Ukraine, interest rates are set by the Monetary Policy Committee of the National Bank. The MPC is required to keep inflation within limits that are set by the President.

In an inflationary environment, prices go up (i.e. demand for goods and services outstrips supply) so the value of money is eroded because it buys you less. Governments don't like inflation because it erodes the value of people's savings (which they don't like) and makes them spend rather than save. If they don't save for retirement or rainy days, the government ultimately has to help them and it can only do this by raising taxes, which is unpopular with the electorate. So the MPC has to maintain interest rates at a level that keeps inflation under control. A little inflation is all right. It has the effect of gradually increasing asset values (e.g. house prices) which increases the feel-good factor. The opposite of inflation - deflation - is worse: consumers don't spend because they know the price of goods and services will be cheaper tomorrow - but then

they don't buy them tomorrow either, because prices will be lower still the following day, so demand dries up. Industry falters and the economy grinds to a halt. So if the MPC is too cautious and keeps interest rates too high, the economy can grind to a halt and tip into deflation [1, p. 44].

In the Ukraine, the speed with which house prices rise is a strong indication of inflation. If people move house a lot, they buy new white goods, furnishings, and so on, and all of this feeds into industry. If house prices are increasing fast, people feel wealthier and spend more on going out and holidays. This is why the MPC gets worried if house prices go up too quickly.

If interest rates go up, the cost of borrowing to enterprises increases. This reduces their profitability. This is one reason why their share price tends to go down (the other is that investors take their money out of the stock market and put it on deposit at banks to get the benefit of the increased rate of interest, so pushing the stock market down) [2].

An increase in interest rates also reduces the value of corporate bonds because, in relative terms, the rate of interest those bonds pay is now less attractive because interest rates have gone up.

Enterprises are also hit in another way. As foreign institutional investors bring money into the Ukraine to get the benefit of the increased interest rate, they convert their cash into sterling in order to deposit it with banks. This has the effect of driving up the price of the pound in the forex market. This has the effect of making the cost of Ukraine exports to overseas buyers more expensive since those buyers now have to spend more in their local currency since it has gone down in value in relation to sterling. So Ukraine exports decline. This, too, has the effect of reducing the profitability of those Ukraine enterprises which export overseas, which in turn will reduce their share price.

If the MPC reduces interest rates because the economy is faltering, then everything I've said above is reversed.

Note that this doesn't always happen. The markets don't like interest rates going up. But they like it even less if the economy is out of control. So if the MPC fails to increase interest rates when the markets think it should, the stock market may react by going down anyway. Equally, if the MPC signals that interest rates are going up, the markets may reward it by failing to react at all - because they feel the economy is under control. In fact, what this shows is that markets are always looking to the future, hence the expression that 'the bad news is already in the price' (in other words, it has been discounted) [3, p.508].

This is also why an enterprise's share price often goes down when its annual profits figures are good (because investors think they have seen the best of it and assume that profits will go down) and why the share price of enterprises that produce bad results often goes up - because investors buy in the hope that things can only get better.

Interest rates are a risk. ORM (operational risk management) is about managing all such risks. These include:

- Internal fraud - by an employee (e.g. embezzlement)
- External fraud - by an external person (e.g. computer hacking; theft of industrial know-how)
- Health and safety - the risk of employees being injured or suffering discrimination
- Clients, products and business practices - this can range from giving a client negligent advice to producing a faulty product (product liability)
- Damage to physical assets - ranging from weather disruption to terrorist acts
- Systems failures - through computer or telecoms mishaps or breakdowns in power supplies [4].

There are other risks:

- Regulatory risk - if an organisation is in a regulated industry (e.g. banking) then one of the biggest single risks is that of losing your licence to operate.
- Legal risk - the risk of being sued
- Political risk - especially if a enterprise has subsidiaries operating in unstable economies
- Funding risk - the risk that an enterprise may be unable to borrow or raise equity finance at a critical time

The financial markets include:

- Interest rate risk - that interest rates will go up (for enterprises that are borrowers) or down (for institutional investors that have money in bonds or on deposit)
- Currency risk - that your currency will go down in value or that a currency you want to raise funds in will go up
- Counterparty risk - that the party on the other side of your deal or transaction goes bust or refuses to fulfil their obligations
- Specific risk - that a particular investment (e.g. shares in a specific enterprise) will go down in value
- Market or systemic risk - the risk that a whole market (possibly the entire market in which an enterprise does business) will go down in value or disappear [5].

In addition there is aggregation risk, from two separate risks coming together, and concentration risk, from greater-than- expected exposure to a particular risk.

Risk isn't bad. It is the lifeblood of business in the sense that the greater the risk incurred, the greater the return should be - provided it is managed. Enterprises manage risk through a variety of ways. They guard against operational risk through:

- Planning (e.g. disaster recovery and business continuity plans to ensure the business can carry on; and alternative sources of raw materials or power)
- Security procedures (e.g. vetting employees by taking up references; preventing access to premises without security swipe cards)

They guard against financial risk through hedging and insurance.

Financial markets are these days closely correlated (they move up and down together).

That's because if there are pricing anomalies between markets (the same bond costs more in the US than it does in Europe), arbitrageurs will exploit the pricing difference. They will buy the instrument where it is cheapest and sell it where it commands the highest price and pocket the difference [3, p.510].

The act of doing this drives up the price where they buy it (increased demand) and drives down the price where they sell it (increased supply). Arbitrage activity helps to keep markets in equilibrium.

Banks, brokers, even individuals, are involved in arbitrage across all markets in all assets (shares, bonds, derivatives, forex, commodities).

The single biggest financial market in the world is the foreign exchange or forex market, which is where currencies are bought and sold (by the way, there's no physical marketplace for forex - it's all conducted between banks by telephone and on-screen).

When you go on holiday you need to change pounds (sterling) into the currency of the place where you are going. When you come back you change back whatever is left over. Usually you do this by going to a bank or a currency changer like Thomas Cook. In exactly the same way, enterprises, banks and institutional investors need to change currencies [2].

Enterprises need to do so when they do business overseas. They may get paid in a local currency and need to translate that back into pounds sterling. Enterprises may also build factories abroad or set up trading subsidiaries. Doing

this in another country is called direct investment. Institutional investors that invest in the shares of enterprises around the world use the forex market to convert sterling into local currencies to buy those shares on local stock exchanges. This is called indirect investment.

There may well be local regulations on the extent to which foreigners can own local businesses - some countries are worried that important enterprises may fall into foreigners' hands. This sort of attitude is called protectionism, where countries try to protect their businesses and markets by controlling access to them (although history shows that open markets generally prosper more quickly because they are forced to become competitive by educating their workforce, dismantling restrictive practices and harnessing technology). There may also be regulations on the extent to which you can export local profits and exchange controls on transfers of currencies [5].

The forex market doesn't exist as a single, physical market. It is a virtual market that is made up of banks, institutional investors and the treasury operations of governments and big enterprises, all dealing with each other. There are also specialist currency brokers who act as intermediaries. The forex market is open all the time. When Europe is open it is centred in the leading financial capitals with London ahead of the pack. Then as New York opens, it switches across to Wall Street and then follows the sun across to East Asia - Tokyo, Hong Kong and Singapore. It is also an unregulated market in the sense that no single government or regulator is responsible for it. The only condition of being able to trade in it is whether anyone else will trade with you and that depends on your 'name' or credit rating. If you are a big bank, financial institution or enterprise with a good credit rating, you can trade. Otherwise, forget it [2].

There are two markets in the forex market: the spot market (buying currency for immediate use) and the future market for delivery at a later date. Going back to the holiday example, if you buy the currency now because you

are about to go on holiday, that is a spot market transaction for immediate delivery. But if you are going on holiday in the US in six months' time and are worried that the dollar will increase against sterling over that period, you might buy dollars at today's rate for delivery in six months' time. That is a forward contract, also known as a future [2].

Enterprises guard against rises in interest rates and in foreign exchange by hedging using derivatives. These are known as risk management instruments. Enterprises buy standard, tradable derivatives on futures and options exchanges. They also buy customised ones directly from banks in what is called the OTC (over the counter market). Derivatives can be either debt-based or equity-based (they are called derivatives because they are derived from other instruments).

Institutional investors and banks use VAR (value-at-risk) measures to assess the maximum loss that a portfolio is likely to sustain. They measure the beta of particular stocks and shares - beta is a measure of how closely correlated to an index a security is. The less correlated, the more volatile it is in relation to the market as a whole and so the riskier it is. They too use derivatives.

Examples of derivatives include:

- Swaps - these can be interest-rate or currency swaps. Interest-rate swaps are used by enterprises to switch borrowings from fixed-rate to floating or vice versa depending on which way they think interest rates are going to go. Currency swaps are used by enterprises to switch funding from one currency (say sterling) into another (say dollars) because they want the latter to invest (e.g. to build a factory in the US) [2].
- Options - these enable an enterprise to buy something at a future date at a fixed price if it wants to.
- Futures or forward contracts - these are agreements to buy something at a future date at a particular price. If on that date the actual price is lower, the enterprise must pay the difference. If the actual price is higher, it receives the difference. These can be dangerous instruments if not properly understood.

Enterprises also protect themselves against risks by taking out insurance cover. Insurance and shipping - still the way most businesses transport goods around the world - are intimately linked, though not, strictly speaking, regarded as part of the financial markets.

It's still hard to grasp - given the number of aircraft in the sky at any one moment - that the bulk of the world's trade (at least four-fifths) moves by ship. The shipping industry is huge in its own right (as is ship finance - the maritime application of asset finance discussed earlier).

Greece - especially Piraeus - is traditionally the home to many ship-owners and there are international ship registries all over the world. But London remains a centre of international shipping. It has the Baltic Exchange where ship cargo-carrying capacity is traded (the contract to hire a ship to carry a cargo is called a charter party and if the length of the charter is exceeded, the ship-owner charges demurrage). The forward market in charters is a good indication of expected economic activity around the world. Of course, taking cargoes across oceans is a risky business, which is how Lloyd's of London developed. Lloyd's was therefore a club - like the Stock Exchange - and made its own rules. The Stock Exchange had jobbers and brokers [5].

Lloyd's had managing agents, members' agents and Names (always written with a capital 'N'). Managing agents ran syndicates (not to be confused with syndicated loans) and were the modern-day underwriters. Each syndicate had capacity to underwrite risk. This capacity was provided by Names. Names were not active members of the market (although most managing agents were also Names and were called working Names); they were individuals who were essentially investors. Members' agents acted for Names, putting them on syndicates and managing their affairs.

Each of the syndicates specialised in certain types of risk: marine, motor, aviation and non-marine (everything else). The managing agent would accept risk on behalf of the syndicate. His expertise lay in pricing risks, the price being

the premium paid to the syndicate for underwriting the risk. Brokers, acting for clients with risks, placed those risks with syndicates by going round managing agents who would accept a slice of the risk, which went on the underwriter's slip (bit of paper).

It used to be considered a great honour to be invited to become a Name at Lloyd's because, provided you had a certain level of wealth, you could keep that money invested elsewhere, earning a return, and would only need to invest it in Lloyd's to meet losses. But in the 1980s, three developments devastated the market: (1) a series of heavy losses through big natural disasters, coupled with (2) internal fraud and (3) liability imposed by the US courts for Joint ventures and alliances [4].

Conclusions. One way of expanding - especially overseas - is by entering into joint ventures and alliances with other enterprises to exploit new markets together.

At its simplest, a joint venture can be an agreement just to cooperate, share information and expenses and develop joint opportunities. At its grandest, a new enterprise (NewCo, as it's often codenamed before being launched with a proper name) may be created (jointly owned by the joint venture parties) which then undertakes a whole new business, with the two shareholders contributing capital, know-how and people.

In both types there are complex formulae for sharing and paying out profits; in the case of NewCo there will be provisions allowing each party to buy out the other and mechanisms for fixing the price at which that is done, depending on NewCo's performance.

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