Current Research Directions in Approaching the Effects Generated by of Corruption and Political Risk on Competitiveness and Organizational Performance

Bianca Andreea Călin
West University of Timisoara,
Doctoral School of Economics and Business Administration, Romania
bianca.calin96@e-uvt.ro

Abstract

A dynamic environment involves change and innovation. The macroeconomic environment is the „terrain'' where all organisations economy compete. In a dynamic market, organisations need to adapt quickly to changes and develop innovative ideas, products and services under the influence of socio-economic factors to keep up with new trends.

The business environment brings together economic, social, cultural and political-institutional components. Some factors directly influence organisational performance, while the influence of other factors is only indirect. From an optimistic perspective, these factors can generate opportunities, and from a pessimistic perspective, threats and challenges for the organisation.

The aim of this paper is to investigate and define corruption and political risk by identifying influences on competitiveness and performance under the latest global trends in technological development.

The main objective of the article is to define and review the current literature on the influence of corruption and political risk on organizational competitiveness and performance.

Key words: political risk, corruption, innovation, competitiveness
J.E.L. classification: F60, F63, I30, J17, L20, L25, O30, O44

1. Introduction

According to the WEF (2022), the 4^{th} industrial revolution brings a fundamental change in the way individuals live, work and communicate to each other. The fourth industrial revolution represents a new trend in economic development, sustained by the deep advances in technology. The evolution of this 4^{th} revolution is challenging people to rethink how countries evolve, how organisations create value and even how to harness the soft rather than hard skills of employees. The 4^{th} industrial revolution is more than a technology-led change; it is a chance to engage all stakeholders, including entrepreneurs, policy makers and consumers to use technologies to create an inclusive, human-centred future. The real chance is to use technology and find resources to generate positive impact on organisations and communities.

In addition, the current digital revolution, expressed through the dynamic and rapid development of technological systems and unlimited access to the internet, offers people and business entities the chance to access a new economy, i.e. the evolution of outdated, traditional methods towards a digital, smarter economy. The digital revolution is changing people's lifestyles and is leading to fundamental changes in the business activities of commercial entities - more specifically, they must adopt ways of working that fit the specifics of the new digital economy or internet economy. According to Turban et al. (2018), *"the new economy refers to an economy that relies exclusively on new technologies, including communication through digital networks (Internet and social networks), computers, software licenses, and other related technologies. In this new economy, the communication infrastructure has created a global network that people and organizations use in order to interact, communicate, collaborate, and search for information"*.

A new technological trend is leading debate about the beneficial effects of Artificial Intelligence (AI) on economic development. However, considering the novelty of the concept AI technology actually plays a significat contribution in economic growth. Unlike any of the technologies developed in the past by humans for the purpose of ensuring a simplification of the way of working (and thus increasing the level of organizational competitiveness) AI can become a valuable tool for a given practical work task due to its unique learning capability, a capability that an employee can develop over a much longer period of time. Its huge contribution to sustainable organisational economic development is fast becoming indispensable (Heylighen, 2017), AI-related activities will be the main instruments for further economic growth and will result in fundamental changes in terms of measuring competitiveness and thus the performance of a business (Vyshnevskyi et al., 2020).

This paper focuses on defining and assessing the influence of the most significant barriers, corruption and political risk on the competitiveness and performance of organisations under new technological trends. Specifically, the theoretical analyses conducted so far on corruption and political risk include social, political and ethical elements. In contrast, analyses of organisational competitiveness and performance are constantly changing given the speed and scale of technological and human development to which the business environment has to adapt.

The primary research direction of this paper is the synthesis of the literature and the interpretation of theoretical concepts such as political risk, corruption, competitiveness, performance. The study aims, on the one hand, to clarify the notions that represent challenges (risk, corruption) and, on the other hand, the notions that represent opportunities for economic and social development (performance, competitiveness) under the influence of a stimulating factor, namely new technologies.

2. Literature review

Systematic review of the literature shows that the main challenge facing the business environment is the dynamism manifested by unpredictability of events, uncertainty of achieving predicted results, which leads to the need to revise traditional approaches to the formation of management strategies (Sardak Movchanenko I.V., 2018). The business environment is often characterized by intense competition, technological change, uncertainty about government policies, the influence of socio-cultural factors and external factors that may question the evolution of the organization. The current business environment is characterized by the economic organizations have no (at best partial) control over external factors. Dynamism refers to both the balance as well as the volatility of the business environment (Dess & Beard, 1984). Similarly, the adversity of organizations to the environment refers to competition, the level of performance to be achieved, concerns about demanding quality standards imposed by the market. Numerous studies (Afzal et al. 2018) have shown that the local business environment has an entrepreneurial capacity, closely related to social, economic, political and technological factors.

The international business environment faces multiple challenges. These challenges result from the intersection of the work of organisations with the action of internal or external factors under the impact of continuous changes in the international business environment. Dynamics and uncertainty, two aspects that reflect the current character of contemporary society, generate a permanent flow of risks: natural risks, financial risks, political risks, determining the complexity of today's international business environment (McKellar, 2010).

Until recently, political risk was a relatively easy term to understand. In most cases, political risk referred to a dictatorial system that seized any foreign assets that entered the national territory and used them for its own needs. Today, cases of expropriation are much less common than before. While national governments are still the main arbiters of domestic affairs, much of the political risk within a country is now generated by other actors, such as terrorists, local officials issuing ordinances and administering sanctions. Political events that even if not in the vicinity of developed countries are affecting business around the world with dizzying speed. For companies, political risk in the 21st century is the likelihood that a political action will adversely affect their business. This definition is much more specific than it sounds. Political risk has long been neglected as a topic of study in academic political science, despite the tradition of research on the concept of *"political instability"*. Indeed, political risk is closely related to issues affecting the quality of state governance and its principles of organisation and functioning, with the effects of limiting property rights, individual rights, subjecting citizens and commercial actors to financial damage. While the effect of risk through political action has been inherent in the public arena since ancient Greek times, the most recent mention of it appeared in the post-war period. For business people, political risk reflects the exogenous factor that can influence market conditions. As Coplin (1983) notes, *"political risk refers to the eventuality that political decisions or political events in a country will affect the business environment in such a way that investors suffer losses or fail to achieve the level of return they expected when the investment was made".* Most political risk analyses are driven by investor concerns following experienced events. Aimed at strengthening institutional capacity and promoting transparency, political risk analyses provide investors and entrepreneurs with information to help them manage their investments.

The duality of political risk is another important characteristic attributed to the term. Much research considers the negative or positive side on investment. Some authors (Root, 1968, Rios-Morales, 2009, McKellar, 2010, Wagner, 2012, Ramady, 2014) consider only the negative side relevant. Wagner (2012) considers political risk as *"those events, actions, of a socio-political nature that may negatively and significantly influence, directly or indirectly the objectives of foreign investors".* The analysis of the negative side of political risk has in fact followed the general trend in risk research. Following the same logic, Howell (2007) considered that political risk is the probability that the resolutions of policy makers or social or political events in a country will affect the business environment so that investors incur losses or fail to realise the returns expected when the investment was made. Howell therefore clearly links political risk to the occurrence of a loss and argues that the concept only applies if the risk-generating events could not have been *"foreseen"* at the time the investment was made, which means that the foreign investor has to differentiate between expected and unexpected events from the outset, further adding to the complexity of defining the concept. Nowadays, political actions that affect business are present both in physical reality and more recently in virtual reality.

"Political risk is essentially the likelihood that a political action will significantly affect the activities of a business - positively or negatively"'. "The effects generated by political risk go beyond the usual targets"' - as such political activities are *"almost everywhere - inside homes, on the streets, in neighborhoods, bars, and in the cloud"* (Rice & Zegart, 2018b, p. 7). This is Rice and Zegart's broader concept of *"political action".* With the help of Artificial Intelligence and Human Intelligence, complex models and scenarios will be created to identify political risk from various social media platforms. The political risk management framework identified by Rice and Zegart (2018a, 2018b) is specifically relevant to two skills: *political risk analysis and political risk mitigation*. The risk analysis competency relies on a rigorous cloud computing and data analytics foundation, respectively. The risk mitigation competency is based on *"human intelligence"*, which brings together the knowledge and perspectives provided by political experts, economists, sociologists and analysts. This stage influenced by technological evolution will be the next generation of strategic political risk management and a valuable mechanism for discovering regulated expropriation risks for multinationals in the 21st century. Today the global balance has shifted with a clear distinction between developing and developed countries. The management of political risk has become imperative and a major source of concern. In the absence of political accountability, corruption becomes a major challenge, political leaders and institutions lose legitimacy and public trust, diminishing their ability to govern, thus undermining the foundations of society.

Corruption, although mainly associated with the act of bribe-taking, is a broad term indicating illicit behaviour by public authorities for potential personal gain. A particular contribution on corruption is made by the political scientist Nye (1967) who defines corruption as "*conduct that deviates from the responsibilities normally assigned to a public official for personal reasons or for the purpose of optimising income or social status; it may also be acting illegally in order to exert pressure for private gain"*. Nye states that the actions of a corrupt public official are manifested in *"abusive practices of influence, nepotism (allocation of positions, benefits not by professional merit but by personal relationships), embezzlement (illegal use of public funds for private use)".* The definition provided by Nye identifies only a few components attributed to corruption, as well as the purpose of committing corrupt acts, while centring the notion of corruption around the public official, i.e. their duties.

Corruption is defined through the perspective offered by Nicolae (2010) as *"an abusive attitude of power to take public decisions in order to grow or maintain power or its sources (usually wealth and status) for individual private or political gain that negatively affects the purpose or values (founding principles) of the social and/or political system".* The definition explains individual and systemic corrupt behaviour in the public and private sector, present and past. Treating the term from a sociological point of view, Romanian specialists in the same field define corruption as *"the systematic violation of the rules of an organization or institution, by some members who, by virtue of having a certain authority, use the organization's resources for purposes other than the intended purposes"* (Nicolae, 2010). Nicolae (2010) considers corruption as *"a violation, in favour of the one who corrupts, of the rules designed to protect the general interest"*. The variety of definitions proposed by social science experts correlates with how public officials carry out their activities. In this case, the definitions attributed to corruption relate mainly to public office and deviations from binding ethical rules.

International organisations such as the International Monetary Fund, the World Bank, the Council of Europe propose a common, generally valid definition of corruption – *"the abuse of public power or trust for private gain"* (Council of Europe, 2018). In a broader sense, the ICPO - Interpol has defined corruption as *"any action or non-action by an individual or organisation in the public or private sector that violates laws or professional duties for personal gain or profit"* (Interpol, 2019). Council of Europe representatives argue that no single universally accepted definition that encompasses all types of corruption can be achieved.

The growing influence of Artificial Intelligence in society has also led to the development of technological systems in the fight against corruption. A number of algorithmic systems are already in regular use in the context of anti-money laundering, where massive datasets of financial transactions are analysed to identify irregularities. As such, they can specifically flag transactions for further investigation or even restrict transactions before they take place. However, AI can also have negative repercussions that are often seemingly unintended. Using AI systems in both the private and public sector can produce undesirable results as a result of irresponsible use of data. When holders of power, whether public or private, use AI systems for personal gain, this constitutes corruption. Because of the constitutive element of *"power"*, AI can become *"not just another form of corruption"* but a particularly dangerous form for the public.

As can be observed, corruption is clearly an obstacle to economic growth. Corruption creates uncertainty in the business environment, slowing down activity and generating additional costs. As a solution, increased transparency and integrity in the public sector will create fewer opportunities for corruption. This manifests itself in higher levels of competitiveness and a strengthening of the rule of law. As a result, competition improves as anti-corruption measures are implemented and corruption is no longer a problem for trade and investment.

The idea of competition is not new, it has been used to understand and explain the characteristics of human society and to provide an answer to some questions about evolution. Competition, however defined, seems to be an integral part of life. However, from a historical perspective, competition has been a controversial topic, and societies have often tried to mitigate or even discourage competitive behaviour. Most of the contemporary literature on competition starts from the assumption that competition exists apriori, analysing how it is harnessed by people or organisations. The idea of competition can now be found in most areas of society, such as economics, politics, sport, but also in scientific research. Competition has been promoted in research (the competition to discover new innovative technologies), in sport (the performance of athletes - their places/medals in the Olympics), in politics (competition between parties, but also between party members competing against each other for different positions).

Competition, as defined by several analysts (Kharlamova and Vertelieva, 2013) in both academic and business circles, can be conceptualized as a confrontation, perceived as rivalry between at least two or more individuals, entities, economic or social groups for a proposed goal (territory, goods, limited resources, market share, top position, attracting new customers, profit maximization). As Drucker states in (2004) *"knowledge is information that can change something or someone, either by new proposed goals or by changing the nature of an individual or an institution capable of* *producing new and more efficient actions, thus knowledge becomes more valuable to an organization than data or certain theoretical information."* Companies should therefore identify, improve, develop and use the resource "*knowledge"* to maintain or strengthen their competitive advantages), but also to improve their effectiveness. This demonstrates that the resource *"knowledge"* is in the 21st century a fundamental resource for maximising revenues. Knowledge is even more important today as organisations become increasingly knowledge intensive and *"engage minds more than hands"* (Omerzel & Gulev, 2011).

Today Artificial Intelligence has the potential to become a key multiplier in organisational and national competitiveness. Technology is now considered to be an important component in gaining competitive advantage. Nowadays, business is seen as a centre of creatin and innovation. Now, every organization needs to anticipate the activities of competitors. Given today's highly competitive environment it is difficult to monitor all types of information. With the help of advanced technologies will be increased companies' ability to respond actively to competitors. The actual trends have transformed the competitive methods and protocols adopted by companies. The organizations implement new methods related to AI as supporting the development of the company's business capabilities (Davenport and Ronanki, 2018).

Over time many theorists have been interested in the hypothesis: does competition help or hinder performance? Eventually, little consensus was reached on this issue. Several theorists, such as the Scottish philosopher and economist Adam Smith (1776), have argued that competition increases motivation and is beneficial to performance. Referring to a passage in The Art of Love:, performance would mean: *"A horse never runs so fast as when he has other horses to overtake"* (Ovid, The Art of Love: Book III, p. 1

Many reputable organisations are looking at how to implement effective approaches aimed at achieving optimal levels of performance. Otley (1999) considers that performance is still a diffuse term, and there is no generally accepted definition by all specialists. He starts from an analysis applied at the organisational level and assumes that *"an organisation that performs within normal parameters is one that successfully achieves its objectives, in other words, one that effectively implements a strategy appropriate to the organisation's work"*.

Samsonowa (2012) argues that the definitions made so far regarding performance have a common feature, all of them involve the action of two terms: effectiveness and efficiency - effectiveness as an indicator of the degree of achievement of the objective, and efficiency as an indicator of the resources that have been consumed to reach the level of achievement. In his analysis (2012), Samsonowa uses the term *"performance"* as the level/degree of achievement of the goal of an organisation/department rather than individuals. From a public management domain-specific perspective, Wouter Van Dooren, Geert Bouckaert and John Halligan (2015) argue that performance in the public sector depends on individual or organisational behaviour. First, when performance refers to the quality of actions, performance is conceptualised as a competence or capability. Second, when it is about the quality of the proposed objectives, performance equals the results achieved. Finally, when performance is viewed through the prism of both the quality of actions and the quality of achievements, it can be concretised as a sustainable outcome. This correlation between performance and the quality of actions/achievements in public management changes the meaning of performance, which is defined firstly as capability, secondly as outcome and thirdly as sustainable outcome.

Today, the implementation of AI technology has evolved through improved business performance. The trend of evolution of AI brings more chances to enterprises (Shareef et al., 2021) to grow. AI can stimulate efficiency gains, cost savings, improvements in product quality, and improvements in customer service. While there is excellent potential for AI capabilities to improve a company's performance there are also significant challenges for those companies applying AI. Companies which use AI to improve the customer services experience provides more appropriate recommendations and less costly options.

3. Research methodology

The article aims to define and evaluate theoretical trends using already existing information and bibliographic sources on what has been discovered to date on corruption, political risk, competitiveness and performance. Through qualitative research, it is proposed to understand the theoretical basis of the concepts analyzed over a well-defined period of time under the influence of external factors that can modify the mode of action generated by corruption and political risk on the benefits that the competitiveness and performance of an organization can bring. In inductive research, the goal is to develop theoretical concepts and models from the analyzed information. The theoretical basis of the present article is the critical analysis of the specialized literature by defining the cause-type factors (input elements), political risk and corruption and the effect-type factors (output elements), competitiveness, performance under the influence of the most recent events that they belong to technological development. The research and synthesis process was carried out on the basis of the most relevant journals, scientific articles, books according to the main keywords (political risk, corruption, competitiveness, organizational performance, challenges, opportunities for economic and social development, economic results, competitive advantages, discontinuity in the business environment, sustainable development, technological implications). The purpose of the research is (1) to study the current state of knowledge in the research field, (2) to identify key authors, articles, theories, and findings in this field, and (3) to identify potential gaps that can be improved. The specialized literature research confirms the economic development trends applied by the economic entities.

4. Findings

Although a broad category of endogenous and exogenous factors determine to a large extent the level of production, efficiency, development and profitability of the business, it is important to know that some exogenous factors cannot be controlled by economic organisations. The literature in the field has consistently demonstrated a negative correlation between economic growth in economic organisations and the level of corruption or political risk, (Mauro, 1995; Barreto, 1996; Tanzi, 1997). Mauro (1995) and Li et al. (2000) also suggest that the direction of causality runs from corruption and political risk to competitiveness and organisational performance.

The corruption has measurable negative effects on national economies. The most commonly cited cost of corruption is discouraging entrepreneurs, by reducing investment, and thus affecting national economic growth and development. Corruption acts as an additional tax on entrepreneurs (Shleifer and Vishny, 1993). The costs of bribery, the costs of identifying those to whom bribes should be paid, and the fees paid to intermediaries can add up to large sums so that entrepreneurs can abandon profitable investment projects or have poor access to factors of production. The underground economy is expanding as private economic organisations try to minimise waiting times, red tape, regulatory framework (obtaining permits, licences) through bribery. Several empirical studies, such as those by Mauro (1995) (cited in Bardhan (1997)), Gould and Amaro Reyes (1983), United Nations (1989), Klitgaard (1991) (cited in Sheleifer and Vishny (1993)), Paulo (1995) (cited in Goldsmith, 1999) find a negative relationship between corruption and investment. One significant effect that corruption has on a business is economic. The operations of a business cannot be maintained efficiently and the level of operation will not be optimal when valuable resources are diverted to corrupt activities from their original primary purpose. Another impact of corruption is on existing shareholders. When corruption is reported in a business, investors and existing shareholders will lose the trust they have placed in the business. Whether the corruption is internal or external, it will discourage both investors and shareholders from investing their resources in the company. Corruption has a major impact on the economic growth and development of companies. There is evidence from previous research that corruption has a negative impact on overall firm performance. These effects include: firstly, undermining domestic regulation and secondly, lower competitiveness relative to other firms. According to a report by the World Bank, corruption has been identified as one of the biggest obstacles to optimal performance.

The International Monetary Fund states that corruption is economic in nature, as it directly affects the structure of the national economy, for example, poor governance clearly disrupts economic activity and performance of firms. Over the years, several possibilities to curb corruption have been researched and new trends consider artificial intelligence as the *"next frontier in anti-corruption"* due to its ability to manage databases and information for which humans have few resources to solve. The application of AI can more effectively identify the detection of wrongdoing, fraud or money laundering that adversely affects the economic activities of organisations. While corruption encompasses a wide range of behaviours and practices related to the misuse of power for personal benefit (Johnston & Fritzen, 2020; Mungiu-Pippidi & Fazekas, 2020), AI includes several elements and techniques to identify and track these practices. AI can be applied to anti-corruption through its ability to act autonomously, with or without human oversight, which differentiates it from other more costly static and *"classical"* human-used communication technologies (Köbis et al. 2021).

Kennedy (1987) qualifies Schmidt's definition by defining political risk as the strategic or financial loss to a firm due to non-commercial events or factors affecting the macroeconomic and macro-political climate. These factors can come from many sources and can affect the fiscal, financial, trade, investment, labour, industrial and economic development environment of the host country, with a negative impact on business profitability or the quality of life of the population. Political risk is important for economic actors, for whom the consequence of inefficiency of public administration is translated into additional cost for business, investment. Political risk is often defined by the activities of governments (and subordinate institutions) whose decisions create outcomes that distort, influence, alter or adversely affect stakeholders (economic and non-economic actors). Kobrin's (1978) research states that "political risk results from the actions of national governments that impede commercial transactions or alter the terms of agreements by confiscating wholly or partially owned commercial property". Conklin (2002) also considers that political risk encompasses a wide range of unethical governmental and political activities on business interests: expropriation, imposed regulations, restrictions on foreign investment, tariff and non-tariff barriers imposed on imports, bribery and corruption. A study by Kobrin (1979) argues that political risk affects FDI through the level of uncertainty that foreign firms experience in the host country. To investigate this empirical relationship between uncertainty and political risk, scholars have traditionally used measures - 14 - objective measures of political risk, including 1) electoral uncertainty, 2) conflict, 3) social unrest, 4) level of corruption, 5) political instability, 6) quality of host country institutions, 7) market imperfections. Studying political risk in the context of behavioural theory it can be concluded that behavioural models predict that not only the level of political risk is important, but also the manager's sensitivity to this type of risk often dictates the corporate response to political risk. Corporate decisions reflect stakeholder interest.

An increase in the level of political risk has a variety of effects on a country and companies operating within its borders. While the most visible impact is a fall in share prices, many countries facing political risk factors will see a reduction in foreign direct investment (FDI), which can prove destabilising for the organisation. Companies are often limited to reactive strategies to discrete risk, rather than proactive strategies that could alter the likelihood of political incidence or the magnitude of its costs. In an era increasingly defined by new challenges and potentially systemic changes, a more holistic approach to political risk management can provide organisations with an opportunity to manage this risk more clearly. In this way, AI can be used as a tool for groups seeking to gain an advantage. At the same time the use of AI can be seen as a manipulative technique that uses publicly available online data to induce, influence and manipulate human behaviour. Today, AI and machine learning techniques can be use to analyze large amounts of consumer demographic data to identify patterns and needs that would predict the likelihood of a product or service being accepted in an external market.

5. Conclusions

Based on the literature review, it was assumed that the inputs of the designed research - political risk and corruption - create an unfavourable environment for the domestic economic environment by limiting economic actors in business creation and development or innovation. A second premise is that strategies that boost performance and competitiveness and are adapted to new technologies give economic organisations globally competitive positions.

- While in the past, political risk was often conceptualised in terms of hostile action by host governments, today the significance of political risk has increasingly attracted the interest of researchers in various fields. The current approach to political risk focuses on the social component, i.e. citizens' satisfaction with the quality of life.
- Corruption is clearly an obstacle to economic growth. Corruption creates uncertainty in the business environment, slowing down activity and generating additional costs. This makes

the society less attractive to foreign investors and thus to doing business, the level of private investment and competitiveness will decrease accordingly, and there is a need to create a solution to minimise this effect.

- We can systematise the concept of competitiveness as a defining element of the century in which we live, and it can be found in various economic areas. Today, competitiveness can be found at the level of individuals, organisations and states. Optimal competitiveness can only be achieved if strategies involve technologies that simplify processes and analyse market needs.
- CEOs, managers in different departments regularly use performance indicators as important factors in running effective performance management. However, each performance management system aims to work towards improving overall organisational performance while supporting economic, financial and social performance.

6. References

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