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Risk in International Business

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Risk within the context of international management is an unavoidable aspect of business due to a lack of knowledge relating to a new foreign market on the part of the business entity and uncertainty associated with managerial decisions (Andersen, 1993). Traditionally internationalisation was perceived as a risky business compared to home market activities because firms had a national identity, better knowledge regarding the value of their local assets and more information about investment returns within their home country environment (Caves, 1998). However, advancements in communication technology over past decades facilitating the globalisation of markets has changed this traditional perception of risk within international business. For traditional firms risk may now be understood as a more regionally based concept (Dunning, 2009) where differences between single nations have less relevance. Foreign market risks within this context can be broadly categorised as natural, legal, societal, political and governmental (Hill, 2002). Managing these risks involves expansion into new markets in an incremental fashion based on cultural distance, educational level and language starting with small level commitments such as exports and sales agents and moving eventually to foreign direct investment (FDI) and subsidiary presence (Johanson and Vahlne, 1977). The importance of gaining knowledge from international business networks to reduce the market risks also enhances the ability of firms to more rapidly increase commitment to foreign markets (Johanson and Vahlne, 2009).

Engaging in risk adverse behaviour to counteract the market risks of international business is one approach, but international business theory also recognises how the risk taking propensity of international business managers can be critical to business success. This risk tolerance, or even risk seeking approach, is addressed within the entrepreneurial theories of international business (Knight and Cavusgil, 1996; Loane and Bell, 2006; Oviatt and McDougall, 1994). They arose to address challenges faced by international managers in the current environment where a growing number of firms are seemingly not conscious of, or constrained by, foreign market risks. Academic interest in an entrepreneurial risk taking approach is particularly prevalent for service industries, small businesses, and new technologies. Within these sectors financial resources may be limited, or there may be little requirement to make a large investment in production facilities, or the manager may be comfortable taking foreign market risk at an early stage based on their education, past experience or personality characteristics.

Thus risk in international business can stress risk adverse behaviour to counteract foreign market uncertainty or individual entrepreneurial risk taking behaviour dependent on the characteristics of both the business sector and the individual. Complementing both of these forms of risk for international managers is the need to gain knowledge in order to learn prior to new market commitment. However, international business theory would suggest that the perception of risk may differ in situations including where new market entry is incremental, is taken in larger or earlier stages, or indeed whether it may be experienced in a continually fluctuating manner dependent on resources and changing market conditions. In this regard, managing international risk is neither static nor rigid involving factors from both within and outside of the business entity.

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