Risks in international business

IBM 530 RISK IN INTERNATIONAL BUSINESS. GROUP ASSIGNMENT. PREPARED BY : NURUL SYAZWANI BINTI BADIOZAMAN SYAMIMI BINTI MOHAMMAD NAWAWI SHAKIRAH BINTI MD YUSOFF SITI SARAH BINTI KHALID NOOR KHALIDA BINTI ISMAIL (BM224 – OPERATION MANAGEMENT) PREPARED FOR : TN HJ MOHD SUKOR BIN MD YUSOFF Risks In International Business . International business manager must be fully aware of all the risk involved by conducting due diligence and risk assessment before venturing into international markets.

Sometimes other invisible factor such as having proper connections comes into play, and which will contribute to the risks in conducting a business internationally. Some of risk in international business is Business risk, Economic risk, Political and legal risk, Cultural risk. 1. 1 Business Risks A firm’s potential loss or failure from poorly developed or poorly executed business strategies, tactics or procedures. It’s because of less than optimal formulation and implementation of strategies, tactics or procedures.

Such as partnering selections, market entry timing, pricing, product features, and promotional themes. Business risks implies uncertainty in profits or danger of loss and the events that could pose a risk due to some unforeseen events in future, which causes business to fail. For example, an owner of a business may face different risks like in production, risks due to irregular supply of raw materials, machinery breakdown, labour unrest. In marketing, risks may arise due to different market price fluctuations, changing trends and fashions, error in sales forecasting.

In addition, there may be loss of assets of the firm due to fire, flood, earthquakes, riots or war and political unrest which may cause unwanted interruptions in the business operations. Thus business risks may take place in different forms depending upon the nature and size of the business. Business risks can be classified by the influence by two major risks - internal risks (risks arising from the events taking place within the organization) and external risks (risks arising from the events taking place outside the organization) The Business risk is classified into different types :) Strategic Risk: These are the risks associated with the operations of that particular industry. These kind of risks arise from : - Business Environment: Buyers and sellers interacting to buy and sell goods and services, changes in supply and demand, competitive structures and introduction of new technologies. - Transaction: Assets relocation of mergers and acquisitions, spin-offs, alliances and joint ventures. - Investor Relations: Strategy for communicating with individuals who have invested in the business.) Financial Risk: These are the risks associated with the financial structure and transactions of the particular industry. 3) Operational Risk: These are the risks associated with the operational and administrative procedures of the particular industry. 4) Compliance Risk (Legal Risk): These are risks associated with the need to comply with the rules and regulations of the government. 5) Other risks: There would be different risks like natural disaster(floods) and others depend upon the nature and scale of the industry. 1. 2 Economic Risks

In financing a project, the risk that the project's output will not generate sufficient revenues to cover operating costs and to repay debt obligations. The risk of adverse unexpected fluctuation in exchange rate, inflation, and other harmful economic. Value of this firm’s assets, liability and/or operating income may be substantially reduced. If money must be converted into a different currency to make a certain investment. It will affect the total loss or gain on the investment when the money is converted back. It can also affect individual investors who make international investment. This term also called exchanged rate risk.

The largest foreign-exchange market is in London, followed by New York, Tokyo, and Singapore. 1. 3 Political Risks Political risk is a type of risk faced by investors, corporations, and governments. It is a risk that can be understood and managed with reasoned foresight and investment. Broadly, political risk refers to the complications businesses and governments may face as a result of what are commonly referred to as political decisions or “ any political change that alters the expected outcome and value of a given economic action by changing the probability of achieving business objectives”.

Political risk faced by firms can be defined as “ the risk of a strategic, financial, or personnel loss for a firm because of such nonmarket factors as macroeconomic and social policies (fiscal, monetary, trade, investment, industrial, income, labour, and developmental), or events related to political instability (terrorism, riots, coups, civil war, and insurrection). ” Portfolio investors may face similar financial losses. Moreover, governments may face complications in their ability to execute diplomatic, military or other initiatives as a result of political risk.

An important aspect of running a business of which an entrepreneur should be aware. A type of risk faced by investors, corporation and governments. Broadly, it refers to the complication business and government may face to political decisions or any political changes Political risk faced by the firms can be defined as the risk of a strategic, financial, or personnel loss for a firm because of such nonmarket as macroeconomic and social policies or events related to political instability.

Potentially adverse effects on company operations and profitability holes resulting from developments in the political, legal, and economic environment in a foreign country. Changes in laws, regulations and indigenous factors may encumber firm operations and performance. The level of government intervention through bureaucratic procedures hindering business transaction and limits on the amount of earned income that firms may repatriate from foreign operations, may also increase the country risks. . 4 Cultural Risks Involves a situations or event whereby cultural miscommunication can put a damper on business dealings and at the same time place human values at risk. Despite surface similarities in the globally interconnected world, the underlying attitudes, thought patterns, assumption, and expectations of different cultures vary widely. Foreign customers' attitudes and behaviour differ significantly from those of buyers at home.

Examples: it makes business sense to market dry cleaning machine and dry cleaning products in Canada instead of Malaysia because the latter enjoys abundant sunshine, so Malaysians prefer to hang and dry their cloths outdoor. Research shows that cultural differences and failure of cultural integration lead to poor strategic alignment , communications and execution, and are key reasons why business relationships fail. Reference An Introduction International Business, Second Edition, 2011, Shamsul Baharin Saihani, Nor Lelawati Jamaluddin, Syed Ashrene Syed Omar, Nuryusmawati

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