
ANALYSIS OF RISK MANAGEMENT FOR INTERNATIONAL NEW VENTURES DURING EARLY STAGES OF EXPANSION

Shubhi Bansal¹

¹School Of Business, Galgotias University, India.

ABSTRACT

This thesis aims to conduct a review of the literature and investigate how INVs approach risk management in the early stages of internationalization. The goal of this thesis is to close the knowledge gap regarding INVs' or BGs' early internationalization. This thesis fills the knowledge gap on how INVs should manage risk during the early stages of internationalization, as there aren't enough studies in this area.

1. INTRODUCTION

This thesis seeks to investigate the risk management strategies used by International New Ventures (INV) and Born Global (BG) in connection with early internationalization. In order to accomplish this, I will study the literature and the research done by academics on the risk of early internationalization of BG and INV. A wide range of factors are said to influence risk and early internationalization, and each of these factors has the potential to affect how the internationalization turns out. Although the topic of how INVs/BGs manage specific risk situations is vast, many scholars focus on particular types of firms or cases and argue how they address various challenges, including risk. Thus, there is a dearth of research on the particular subject of risk management during the early stages of internationalization. This is a knowledge gap in the literature and calls for additional research on the subject. Thus, the following query is posed: What risk management strategies do International New Ventures and Born Global employ when it comes to early internationalization?

Theories have been employed by academics to explain how managers and CEOs handle risky situations and perceive risk. However, there are a number of additional factors to consider when internationalizing a business, such as environmental and economic factors that could influence management behavior or expose the company to unidentified risks brought on by the environment, which could also affect the internationalization's outcome. All of the studies have looked into various research goals, and by putting out various research questions, they have finally arrived at either distinct or comparable conclusions. The theoretical foundation and research results from two years of studying international entrepreneurship will be the main topics of this thesis, along with a chapter that compares and discusses the study's similarities and differences. Finding out how academics employ risk management in their research is the aim of the literature review, which will be compared to a risk management theoretical framework later in the thesis. By highlighting the risk management sections of the INV and BG literature, I will contribute to the body of academic literature. Some of these sections may require more research on risk management, and I will conclude by mentioning crucial risk management decisions that businesses should be aware of when they go global. Because it uses a review of the literature to identify any potential gaps, this thesis is exploratory in nature.

The writers of the literature on international new ventures concentrate on the various difficulties that these fledgling companies might encounter; nevertheless, a crucial element—and the subject of this paper—is the risk associated with internationalization. Risk is the probability of a bad outcome; it can be defined as either the unpredictability of an event or the unfavorableness of the outcome. Thus, the likelihood and impact of a risk are its defining characteristics. To put it simply, this is simply the odds. While we may be able to calculate the odds and know the main parameters, likelihood and impact are not always quantifiable, which is inherent to the concept of risk. Because we are ignorant of what we do not know. The writers of the literature on international new ventures concentrate on the various difficulties that these fledgling companies might encounter; nevertheless, a crucial element—and the subject of this paper—is the risk associated with internationalization. As a result, we are aware that INVs and BGs can prevent or lessen specific risk events, but we are unaware of the decision-making process or the steps that are done in response to particular risks. Merely asserting that leveraging network connections can reduce risk is insufficient; it is also necessary to take into account the likelihood and nature of the loss, as well as the way in which this information influenced the firm's decision to pursue a partnership in order to achieve the best possible outcome. It is also vital to take into account small business performance, which can be evaluated in a variety of ways. While some people define it as complex and multifaceted, others believe it to be quite straightforward. Three viewpoints have been used in previous research to examine small firms' performance: human, sustainable, and economic. Given that prior research will be the primary source of data for this study and that most researchers concentrate on a firm's financial growth, it stands to reason that financial performance will be given the greatest weight. (Raymond, Stpierre, Cadieux, Marchand, & Labelle, 2013)

2. REVIEW OF LITERATURE

- With an emphasis on decision-making logic, Gabriëlsson & Gabriëlsson (2013) created a dynamic model to explain the growth phases in B2B INVs. This makes the study slightly different from other studies that explain how INVs take advantage of opportunities in their early years to survive using the framework of entrepreneurial orientation. The Gabriëlsson & Gabriëlsson (2013) model challenges the conventional wisdom that an entrepreneurial orientation is primarily advantageous while still emphasizing the value of seizing opportunities. They developed the new model in response to criticism of earlier organizational models that put an emphasis on features, linearity, and stages. These models were descriptive rather than analytical with regard to the growth factors, and the authors feel that the earlier models did not account for companies' growth and expansion.
- According to Ganotakis and Love (2012), entrepreneurs with managerial and commercial experience can equip themselves with the knowledge and abilities needed to assess opportunities and reduce perceived risk in foreign markets. Although older and more experienced entrepreneurs may believe that their cumulative experience is sufficient to make decisions, previous research has suggested that older entrepreneurs are less comfortable with uncertainty and more risk averse. In contrast, general experience was found to have no significant effect on export prosperity. The study came to the conclusion that because the human capital skills needed to enter and succeed in export markets differ significantly, maintaining export performance can be challenging. Businesses may need to invest in technical and business education in order to succeed in export markets.
- The role that BG's network plays in the expansion of the company's internal resources (resource-based view) and entrepreneurial orientation (EO) was examined by Sepulveda & Gabriëlsson (2013). Smallness, novelty, and foreignness are BGs' liabilities, so in order to compete, they must maximize their resource utilization and market their products internationally. BGs rely on their network connections to help them overcome these obstacles. The relationships that make up the BG's network include customers, business intermediaries, social contacts, and anybody else who might be able to exchange resources with the company. Thus, network connections give BGs the support they need to survive, expand internationally, and mature beyond the initial phases.
- According to Autio, Pathak, and Wennberg (2013), an entrepreneur's cultural background can help them overcome any initial obstacles that may arise from internationalization and reduce the likelihood that they will need a close-knit culture market in order to succeed. Although having similar cultural backgrounds could make the initial hurdles to internationalization less daunting for the entrepreneur because they will already be familiar with the entry market's customs and habits. However, since the studies were not viewed from that perspective, it is difficult to discuss the kind of risk that must be overcome based on a culturally prepared perspective as opposed to a proximate culture perspective.

3. RESEARCH METHODOLOGY

With a focus on two years of research in the International Entrepreneurship Database (<http://ie-scholars.net>), this thesis is exploratory in nature. In order to investigate how international entrepreneurship researchers (the domain of INVs) choose to investigate risk, I have decided to restrict the scope of my thesis to the years 2012–2013. The international entrepreneurship database should be a comprehensive database with regard to INV/BG literature. To maintain the exploratory nature of the study, the research question is formulated as an open-ended question. I looked for published articles on either Born Global companies or International New ventures in order to review the various studies. Since these terms are used loosely and Born Global and International New Venture are frequently used interchangeably in the literature to refer to the same kind of business, I did not make a distinction between the two names for this particular type of organization. I concentrated on looking for articles, mostly in the study summary or title, that discussed the early, quick, or rapid internationalization of BGs and INVs. The selection criteria involved searching few years' worth of research articles with the terms "risk management" or simply "risk," eliminating any that did not yield any hits on the term. I also used the search parameters rapid, quick, or early internationalization. I gathered all the articles that would carry any kind of risk when they were internationalized and placed them in a folder. This was dubbed the initial pick-phase. I'll follow this design when conducting my literature review. The theoretical framework of the authors and the conclusions they might draw from their research will be covered in the literature review. In addition, I will go over the various topics and theories and emphasize how risk was managed.

4. CONCLUSION

Through the literature analysis, we learned that in order to reduce risk and promote growth, INVs and BGs should be adaptable to the market, client needs, competitors, and market trends. Additionally, a significant part of internationalization was the contribution to partnerships in overseas markets through the use of networks to discover new opportunities, acquire skills and information, share risk, and become globally exposed. Utilizing network

connections was explained as a means of managing risk through a partnership that reduces exposure and of gaining access to capabilities and resources that would not otherwise be available.

It is believed that INVs and BGs have some flexibility in their corporate structure, making them stronger than the sum of their parts. A global company's core business and essence should remain consistent, meaning that the product, competencies, and ability to meet customer needs should not change. However, the firm's positioning within the market is essentially flexible when it comes to risk management. This means that the business can be present in several international markets while also de-internationalizing from less lucrative ones in order to pursue new business prospects. This kind of risk management is more of a generalization of INV's and BG's approach to managing risk, expansion, and growth than it is a generic risk management methodology. The risk management strategies used by R. Walker (2013) and the literature review shared many similarities. They both employed ideas that included finding alternate routes to completely eliminate risk as well as a means of shifting risk outside of the organization.

In response to the inquiry: How do Born Global and International New Ventures handle the risks involved in early internationalization.

By being alert to risk events in advance and looking for alternate routes to reduce risk both before and after internationalization. Discover and make advantage of the choices accessible to the corporation, such as investing in redundancy and leveraging network connections to shift risk outside the organization. It takes time and information about the risk to determine the appropriate risk management plan. It is not always feasible to be proactive, and responding to risk demands equal amounts of time and resources in order to develop a plan that lowers the exposure. The majority of INVs are advised to have a small governance structure, which means that senior management and entry-level employees are not too far apart. By eschewing a rigid business structure, the company can respond quickly to risk events that might otherwise seem difficult and maintain greater flexibility. The collection of information and the firm's response to it form the basis. The investigation demonstrated multiple approaches to risk event management. Additionally, the literature analysis demonstrated a risk-avoidance strategy that centers on market demands to guarantee the enterprise's growth and success. By having an adaptive corporate structure and market presence, as well as by only taking on risk that may be accepted or managed through partnerships, the INVs and BGs effectively manage risk throughout the early stages of internationalization.

5. RECOMMENDATIONS

The results of this study have implications for practitioners and scholars engaged in theory formation. This thesis aims to progress the topic of risk management for INVs rather than refute any theories that already exist. If other researchers would like to carry out similar research, they should think about the ways in which various risk management frameworks can impact INVs and which choices are best suited for studying international entrepreneurship. To validate or invalidate the study's conclusions, the outcomes had to be empirically evaluated on a representative sample. If an empirical investigation could validate the foundation presented in this thesis, that would be intersecting.

After that, a theoretical framework for risk management tailored to INVs might be created, along with guidelines on how INVs should structure their business plans based on the type of industry in order to minimize risk. This thesis, in my opinion, can help academics who are interested in studying risk in international entrepreneurship and who wish to expand on the theories covered here, as well as practitioners who want to learn more about risk and apply the theories covered here to their own work.

6. LIMITATION

This paper's primary drawback is its focus on international entrepreneurship and the database. As such, it does not encompass all available research on risk management in early internationalization during the two-year period under examination. This suggests that there might have been more insightful studies that were overlooked and could have provided new insights into the research and, as a result, altered the results. As a result, the study is predicated on a small number of extremely focused articles in the area of global entrepreneurship. Additionally, in order to retain the focus on INVs and BGs, SME's and MNCs were excluded from the selection process. If they had been included, the study might have included more research articles on internationalization and risk management. As a result, the analysis's findings might have been different if the sample had been bigger or comprised different kinds of businesses, such as those from the early stages of SME internationalization. Owing to temporal limitations, the research paper sample was restricted to a two-year period. Had the literature review encompassed a longer timeframe, it could have included more studies that could have impacted the study's conclusion. The direction of the thesis may have changed if a different two-year period had been chosen, or if a longer period of time had been included in the study. A significant part of the thesis stems from the time period that was examined, during which the scholars published a wide range of topics and theoretical discussions.

7. REFERENCES

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