Vivekanand College, Kolhapur (Autonomous)

Department of BBA

Subject- International Business

Topic- Risks in International Operations

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Risk in International Operations

- Risk implies the possibility of some unfavorable happing.
- It is the possibility of loss due to some uncertain future occurrence.
- Conducting business internationally carries many risks that domestic business does not.
- International business risk may be defined as the possibility of loss caused by some unfavorable or undesirable event in international business operations.
- Profit and growth rates in international business are higher but so are the attendant risk.

- Changes in international environment and difference in the economic systems, objectives and cultures of different countries are the main causes of international business risk.
- The degree of such risk differs from one company to another company and from one country to another country.
- These risks can obstruct the smooth running of the business, and hence, appropriate measures need to be taken to limit their effects.

Risks in International Business/Operations-

- Political Risk
- Exchange Risk
- Credit Risk
- Transport Risk
- Market Risk
- Cultural Risk

- **Political Risk-**
- Political risk is the risk an investment's returns could suffer as a result of political changes or instability in a country.
- Instability affecting investment returns could stem from a change in government, legislative bodies, other foreign policymakers or military control.
- Political actions may make it difficult for companies to operate efficiently in these countries.
- A new government may replace the friendly one, so may be policies become unfavourable.

- **Exchange Risk-**
- Every country has its own currency system.
- As the currency of one country is not in circulation in the other country.
- Therefore, one currency is exchanged with another currency at some rate.
- The exchange rate keeps on fluctuating causing risk of loss to participants in international business.
- In other words, exchange risk refers to the losses that an international financial transaction may incur due to currency fluctuations.
- It is also known as, currency risk, FX risk, exchange-rate risk, foreign exchange risk.

- **Credit Risk-**
- It is the risk of loss due to a debtor’s non-payment of loan or other line of credit.
- It s difficult to ascertain the credit worthiness of a foreign buyer.
- When a foreign buyer goes bankrupt, an Indian exporter faces great loss.
- **Transport Risk-**
- Due to long distance between countries, goods are dispatched by shipping or airways.
- While shipping goods to abroad you may face issues such as contamination, seizure, accident, theft, loss and breakage.
- Before shipping any goods to the buyers you need to make sure to have sufficient insurance.

- **Market Risk-**
- Competition in international business is severe and market structure also.
- **Cultural Risk-**
- Culture differs from one country to another.
- The language, customs and lifestyles differs from country to country.
- As a result a business firm faces additional risks.