

Chapter 20

Internationalization and Risks: Case Study

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ABSTRACT

This chapter focuses on the risks associated with globalization and on the risk management techniques that may be used to mitigate them. Therefore, the main objective of the research was to demonstrate how a Portuguese company in the sector of the ship-chandler, with an activity focused on international customers, is exposed to the risks of internationalization and how it operates to mitigate such risks. Consequently, the research methodology used was the case study. It was observed that even though the company was subjected to country, credit, and foreign exchange risk, which had an impact on the functioning and activity results, it did not apply any risk-management technique. For that reason, a model for the management of these risks has been proposed in order to mitigate their impact on activity and improve and streamline future operations and financial results.

INTRODUCTION

After the 1970s, the rapid expansion of international trade and the use of different currencies by countries led to an increase in companies' exposure to the risks of internationalization, with special emphasis to currency risk. Although it has already been extensively studied, risk management continues to evolve.

At European level, although there is evidence of reduced exposure to exchange rate fluctuations with the introduction of the euro, the issue of exchange rate risk continues to be relevant as a result of the economy's increasing globalization which leads to the increase of international trade.

Thus, considering that variation in exchange rates alter the companies' value, both at the accounting level and the activity's cash flows level, with implications on the financial decision and business profitability, risk management remains a fundamental theme in today's business context.

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Presently, there is a global competition that companies must value and be prepared to face. The internationalization of organizations begins with their integration into a transnational value chain, which can take the form of a network based on inter-company agreements at national and international levels. Internationalization is a dynamic process that uses various operating modes associated with the companies' growing commitment to the respective markets they serve. The ability to produce products and services that can be sold in the international market is a way of ensuring competitiveness and adjusting the companies' strategic positioning in the face of increased competition resulting from globalization. The inherent uncertainty in globalization is an opportunity for start-ups and spin-offs in a market where the size is no longer a competitive requirement, since flexibility and adaptability supported by knowledge, improvement, and creation of products according to the market's needs and trends, are a crucial source of competitiveness. The companies' international inexperience should not be seen as a handicap since internationalization is a phenomenon of continuous learning in the face of the challenges arising from competition.

Therefore, this chapter focuses on the risks associated with globalization and on the risk management techniques that may be used to mitigate them. The primary objective of the study is to demonstrate how a company in the Ship-Chandler sector, with an activity focused on international customers, is exposed to the risks of internationalization and how it can act to mitigate such risks. Therefore, a model for risk management will be proposed in order to mitigate their impact on activity and improve and streamline future operations and financial results.

This chapter is organized into two parts. The first part contemplates a literature review developed from earlier research about the most important concepts on the topic under analysis, again, risk and its management, types of risk in international trade, with special emphasis in exchange risk, and various hedging techniques for the most common risks in the activity of international companies (credit risk, foreign exchange rate risk, interest rate risk and country risk). Therefore, the risk management strategies in international trade will be analyzed, such as credit risk management techniques (payment techniques and forms of financing), foreign exchange risk management techniques (internal and external techniques to the organization) and interest rate risk management techniques.

In the second part, the empirical study is presented, characterizing the recent evolution of a Portuguese company (which for the purpose of the study will be named "Navigation, Ltd") and its international activity, along with the associated risks and risk management techniques. This part ends with the study's conclusions.

LITERATURE REVIEW

Risk: Concept and Management

The management literature presents several definitions for the term "risk". According to Bernstein (1997), *"the word risk derives from the ancient Italian risicare"* (p. 8). The term "risk" is understood more as a choice than as a fatality or fate (Howe, 1991). The widespread use, albeit often ambiguous, of the term "risk" leads to some confusion about its true meaning. Possibly, the best definition of risk is the one related to the double dimension uncertainty/undesirability which can be associated with a given result of a certain event (Howe, 1991).

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