Risk in international business and its mitigation

Cavusgil, S. Tamer; Deligonul, Seyda; Ghauri, Pervez N.; Bamiatzi, Vassiliki; Park, Byung Il; Mellahi, Kamel

DOI:
10.1016/j.jwb.2020.101078

27 November 2019 Perspective article for the JWB SI on Risk

RISK IN INTERNATIONAL BUSINESS AND ITS MITIGATION

Cavusgil, Deligonul, Ghauri, Bamitiazi & Park

Abstract

While risk mitigation and management preparedness of MNEs have escalated to the top of the corporate agenda, international business literature is lacking pertinent conceptual and empirical studies. As an opener to this special issue, we offer several perspectives on country risk and its mitigation. We discuss conceptual and empirical challenges in researching risk in international business. We conclude with a commentary on the six papers included in this special issue on international business risk.

Keywords: Risk in international business, country risk, risk mitigation, MNEs and risk

RISK IN INTERNATIONAL BUSINESS AND ITS MITIGATION

1. Introduction

Worldwide, cross border business activity has seen an unprecedented level of risk due to the heightened threat of national conflicts, wars, terrorism, corruption, and fraught political regimes. Such risks are a hidden tax on doing international business (IB). Risks have the effect in redirecting or reallocating resources and cause cost distortions, supply shifts, and changes in expectations from investment. On an international scale, the result is the deceleration of capital accumulation due to the decline of transactions, the dampening of earnings, the limiting expansion and venture, and the restrained entrepreneurial incentives and opportunities. For example, in 2018 UNCTAD reported a 13 percent reduction in FDI flows to $1.3 trillion attributed to geopolitical concerns, policy uncertainties, and governance issues. The question of how this new global environment and its manifestations affect cross-border business remains largely enigmatic.

Growing overseas risks compel firms to increasingly focus on risk identification, risk quantification, and risk mitigation (e.g., Lewis & Bozos, 2019; Cavusgil & Deligonul, 2012). With the upsurge of vulnerability for all businesses, MNEs have been devoting more attention to overseas and country-specific risks in their cross-border expansion (Xie, Reddy, & Liang, 2017). According to a recent Financial Times report[1], more than half of international companies — those with revenues of at least $1bn — have experienced losses of more than

[1] Global Political Risks Pose Growing Threat to Companies. https://www.ft.com/content/b3e18b26-bdc0-11e8-8274-55b72926558f

$100 million in 2018 due to overseas risks. Despite its significance, the extant research on international business risk is not commensurate with its growing significance.

Risks encountered by firms have been not only on the uptrend but also propagating faster. Adverse conditions in one market easily affect others as the world gets more connected with MNE activities. This pattern, over time, creates unsettled waves of challenges throughout the globe. Notably, the increased use of credit at the international level raises the exposure of MNEs to the risk of commercial default. In fact, the debt crisis of the 1980s, the Chilean collapse of 1982, the debacle of the Mexican peso in 1994, the Asian disaster of 1997, the Russian default in 1998, the Argentine chaos in 2002, and the economic crisis of 2008-2009 in the West, all demonstrate the surge and spread of country risks.

Additionally, international risks, being periodic, can create intermittent challenges. For instance, in 2018, FX liabilities at Turkish firms continued to exceed FX assets by $217 billion. This imbalance (between foreign exchange assets and liabilities) had widened over time, tripling since 2008. All this occurred when Turkish Lira lost 75 percent of its value in a period of five years (Damodaran, 2018). Damodaran (2018) laments that this "insanity" is not the first; it has happened before: in 1994, 2001, and 2008. Furthermore, it is not the only one; it has repeatedly occurred elsewhere.

Given the unprecedented degree of vulnerability, firms now face an acute need for international business (IB) scholars to examine the antecedents and consequences of the current geopolitical environment for IB strategy. This special issue addresses the topic from various angles. As we explore the content from a bird's eye view, we begin by examining the nature of country risk in international business. We then offer various propositions about country risk and its mitigation. Next, we discuss conceptual and empirical challenges in researching risk in international business. Finally, we conclude with some closing thoughts and commentary about each of the six papers included in this special issue.

2. Delineation of Country Risk

The concept of business risk, in general, has different meanings in different contexts. Generally, it refers to a performance variance or likelihood of a negative outcome that reduces the expected return at the onset. Country risk, in particular, broadly refers to the conditions, situations, and events that might cause performance variance or reduction in expected returns specific to a country. It assorts to such types as political risk, government policy risk, macroeconomic risk, social risk, and risk due to hazards in nature (Cavusgil, Knight, & Riesenberger, 2020). Hence, due to its pervasive effect on business, risk -- along with its mitigation and risk management strategies -- has been a topic of much interest (John & Lawton, 2018).

In the literature, early vernacular about country risk was more on the political side as the lending institutions were occupied with borrowing hazards[2]. Bouchet, Clark, and Groslambert (2003) provide an excellent review of the literature dealing with the definition of country risk and make a clear distinction between the terms 'political risk' and 'country risk.' The authors note that the term 'country risk,' as opposed to 'political risk,' has been gaining ascendency because it has a broader meaning in that it can include any risk specific to a given country, whereas 'political risk' restricts the scope to those that are exclusively political in nature.

[2] "Country risk" began to be widely used in the 1970s. It was originally a professional consideration in the banking industry (i.e., Bhaumik, Owolabi, & Pal 2018). Its practical intent was to address the concrete issue of a particular business in a particular country. Paralleling the inhouse efforts of professionals, scholarly literature on the side emerged and thrived next to trade journals. Suddenly, the interest in the topic flared up in the aftermath of the international debt crisis of the 1980s (Brouchet et al., 2003)|.

Some confusion should not be surprising when considering that country risk is a composite idea about the conditions in the external environment. The idea entails unsettled changes coupled with external hazards; it includes political, economic, social, legal, and cultural variations that rely on conceptual abstraction that is in itself blurry. With its familiar but expansive constituents, country risk is hard to untangle because of its incorporation of temporal, interactive, reciprocal, and feedback loops.

Separating the components of country risk into distinct and non-overlapping formal statements within a precise scope is a formidable task. Instead, in practice, scholars rather parse the country risk within a loose interpretation and portend its consequences through qualitative or quantitative models. A plausible approach in modeling, as evidenced by Bettis and Thomas (1990), centers the idea on the downside risk. The downside risk refers to falling short of a given target performance (Miller & Reuer, 1996).

Meanwhile, it would be an oversight to ignore the temporal nature of the risk. In general, risk events arrive intermittently at discrete intervals, and they generate an actual loss. In modeling them, specific events can be represented, for example, via a Poisson jump process. This ongoing stochastic process takes the form of continuous activity, such as macroeconomic management and monetary policy, legislation, or social and political evolution that affects some or all aspects of the FDI's overall environment. The use of the concept in this manner is relatively new; it was introduced to scholarship by early nuclear reactor studies. Yet, it is one of the most consensual approaches today despite its limitations[3] (i.e., Intemann, 2015).

[3] The expected value criterion has been open to criticism due to its weaknesses. One criticism is that it lowers the shields against a disproportionate avoidance of large hazards. Thus, risk assessments have frequently been criticized for containing "hidden" values that induce a too high acceptance of risk. In the risk context, avoidance of type II error should be in balance with avoidance of type I error. Moreover, when there is a strict

In summary, as nebulous in definition, it is not an accident that country risk is both conceptually tenacious and empirically inconclusive. Indeed, even today, the notion of risk has different meanings as it remains imprecise and equally nonconsensual. Except for the tentative work of a few, a comprehensive risk theory has yet to be formulated (Bouchet et al., 2003; Giambona, Graham, & Harvey, 2017). Up to now, the literature adopts a fragmented approach with the implicit supposition that imbalances in the economic, social, and political realms are likely to increase the risk of a host country (Henisz, Mansfield, & Von Glinow, 2010).

3. Examination of country risks and mitigation strategies

3.1 Country risk is an imminent and growing derivative of internationalization

Country risk emerges from touchpoints and cross market linkages between home and host entities. Market actions take place as products and capital cross borders; as they flow between countries, they spill risk as a byproduct (Allen & Carletti, 2013). The resultant risk bearing is a constant sum game. Therefore, international players seek partners and agree in negotiable terms to share it. In this view, benefits, and risks go hand in hand, as cooperation and competition occur side by side.

With the desire for growth, firms take positions at touchpoints forming market linkages. The connections occur in transacting (service and product markets), lending (fixed income markets), investing (equity markets), and currency exchanging (currency markets). All such

requirement to avoid type I error, this process filters out information that might, in this case, have been practically relevant, by justifying certain protective measures.

linkages facilitate transactions sensitive to country risk. Bekaert et al. (2014) indeed show that a one percentage point decrease in the political risk spread is associated with a 0.34% increase in FDI scaled by GDP, which for a typical country, leads to a 12 percent increase in net FDI inflows. To this end, the desire to attain economic expansion for a firm requires calibrating the relationship between the return on capital and the level of investment.

The return from internationalization depends not only on the firm's footprint expansion but also on the foreign environment parameters. An example is the capacity and willingness of a country regarding capital and dividend repatriation. Creditors and investors become substantially dependent on the ability of a foreign country's government to host the market linkages. In that, the host country becomes not only a habitat for the market activities but also an active participant in carrying risk (Aabo, Pantzalis, Sorensen, & Toustrup, 2016).

Considering that each player, including the government, has a certain level of risk carrying capacity, there is a critical point of vulnerability (a threshold) beyond which a risk-event sets off acute effects even on third parties. In a multi-player situation, participants are linked because they borrow, default, and renegotiate with common lenders, while the borrowings and recovery schedules for each participant depend on the choices of others. Given such connections, bond spreads co-move because the default by one party can trigger a default by another. A foreign default increases the lenders' pricing kernel, which makes home borrowing more expensive and can even induce a home default (Dornbusch, Park, & Claessens, 2000). In addition, market participants can use default as an exit strategy; by doing so, they can renegotiate the debt simultaneously and pay lower recoveries. Therefore, risk is, at various degrees, contagious (Arellano, Bai, & Lizarazo, 2017).

3.2 Country risk is an indirect levy on internationalization

One can view the costs due to risk as a hidden risk-levy for a firm, paid not directly, but indirectly reducing the value of getting the business done. As a consequence, the effective tax rate that a company pays in a host economy is much higher than the statutory tax rate. Of course, this tax, not being direct, is written off by lowering the return and, therefore, it is a drain on income (Franks et al., 2014). Considering that indirect tax is a non-competitive intervention, it impacts the private economic activity and eventually distorts entrepreneurial incentives and resource allocation.

Every business with varying degrees is laden with some faith against uncertainty, and some faith in the outcomes. The uncertainty compels developing measures of safeguarding and demands devising of plans for the counter-offensive. To that end, entrepreneurs anticipate risk and cover against consequences, up to the cost of forgone safety (Ehrlich & Becker, 1972). At any degree of hedging before an adverse effect, there is some level of cost involved. In extreme cases, plausibly, firms can insure against such potential costs, but of course, insurance claims cover only a subset of risk realizations. Therefore, hedging is never complete, and its cost, often being high, reduce profit margins. In addition, as with all insurance claims, there are also recovering costs arising in the aftermath of the risk-event.

Accordingly, it is not surprising that risk is incorporated into the valuation of an investment project by augmenting the project's discount rate reflecting systematic risk exposure with the country's sovereign spread (e.g., Damodaran, 2003). That is, the project's cash flows are predicted in the absence of risk events, which are then incorporated via an upward adjustment to the discount rate based on a country's sovereign spread[4].

Given the role of risk as a hidden tax in valuation, a substantive portion of the related literature has focused on the ability of MNEs to manage country risk in a variety of ways. This ability appears primarily in the entry decision literature (Henisz, 2003; Reue, Shenkar, & Raggozzino, 2004). In another stream of studies, we see how country risk should be incorporated into cash flows (Lessard, 1996). Butler and Joaquin (1998) discuss the choice of incorporating political risk into project cash flows or the discount rate. The discount rate is supposed to reflect the 'systematic' risk of the project, the part of the risk that is not diversifiable and linked to global factors (e.g., the sensitivity of the project to a world-wide recession).

3.3 There is always a certain level of foregone safety in risk-sharing

When the firm carrying risk hits the triggering risk-event, the risk-sharing partners have no choice but take one of two paths: get into forced solidarity or start a destructive dispute with self-interest driven opportunism (Shrader, Oviatt, & McDougall, 2000). Either way, it can be argued that power reshapes the relationship. That is because, power in part, exposes the underdog to higher costs and immunes the top dog against a deadweight loss (a costly excess burden). Implicitly, it allows a partner to pass part of the prospective cost of relational hazard to its partner. The underdog inordinately gets exposed to a possible loss and the

[4] A country's sovereign spread is the difference between the yield on a country's bond issue and the yield on a comparable bond issued by a benchmark country such as the United States or Germany. In this model the sovereign spread is used to augment a project's discount rate.

fragility of the relationship upsurges (Deligonul, 2019). Such power asymmetry can expose partnerships to a moral hazard problem.

All moral hazard and adverse selection issues bring about the warping of the investment structure or distortion in the pattern of investment. The distortion of investment occurs because there is a pattern – or complex – of return rates, one for each investment opportunity. Not only does each rate represent and control the flow of capital into and out of each opportunity, but the rates are each intrinsically linked against all others when the total capital remains relatively constant. Any attempts to mitigate risk as it enters the cost structure of business leads to debasing of supply, which consequently affects all areas for investment, some rather adversely and others only opportunely. Overall, the implications indicate diminution in efficiency for the MNE as a whole[5].

3.4 Risk is specific and contextual in that firms differ in sensitivity to risk events

Risk events are temporal and recurrent. Increasing hazards notwithstanding, feeding on and fueled by globalization, more and more firms invest, trade, and compete outside of their home markets. When they do, they increase their exposure to the corresponding host country risk. Their actions boost economic integration; their dependence on overseas translates to a higher sensitivity to international events. The result is a cyclical tendency of optimism and

[5] Asymmetries in the availability of insurance schemes, therefore, expose MNEs to both moral hazard and adverse selection problems (Dewit, 2002). Such impediments have macro level consequences on foreign investment levels. For instance, by forcing the MNEs foreign plant to purchase a certain fraction of its inputs in the host country, the MNE, not only forgoes potentially some imported inputs but also exposes itself to the price variability of local inputs. The combination of risk mitigating government services at home and risk exacerbating polices abroad may, therefore, severely distort even curtail FDI in weak economies, despite the enormous investment potential in those markets (Dewit, 2002; Ullah, Wang, Stokes, & Xiao, 2019). Moreover, all business risks are at the expense of private consumption, present or future, and this is true whether risk are immediately shiftable to consumers in higher prices or whether they temporarily remain with producers, thereby reducing their income. In the end, welfare implications indicate a diminution in efficiency for the economy as a whole.

pessimism about risk. In fact, after a long enough period of relative tranquility, managers and banks tend to become complacent about economic prospects. Little by little, they start to escalate their risk by taking on more risk, going for more debt and hence making the system periodically more vulnerable (Bouchet et al., 2003).

While risk perceptions are temporal and cyclical over time, MNE's business risk is specific; it conforms to the role of the bearer and its specific role in transactions across industries (Bergner, 1982). A lending institution focuses on a country's creditworthiness when extending debt to a foreign firm, for example. A manufacturing firm considers the potential for the expropriation of its capital investments. Retail and service firms are concerned with the propensity for corruption by host country employees. Thus, the importance of different risks to different industries should create unique risk sensitivities and corresponding needs for different risk information (Leavy, 1984).

Meanwhile, MNE's business risk is also contextual. A bank or a lending institution considers a country's creditworthiness when extending debt to an MNE. A manufacturing firm adjusts its investment concerning debt carrying capacity under the threat of potential expropriation of its capital investments. A technology firm calculates the infrastructure for technology capital. Retail and service firms are concerned with the propensity for labor unrest, corruption, and human productivity. Thus, the importance of different risks to different observers create idiosyncratic risk sensitivities (Calhoun, 2003).

3.5 Country risk mitigation strategies and the role of regulation

As mentioned above, foreign investments are exposed to primary risks that emerge from market dynamics and the host country conditions, in addition to those typically faced by pure-play domestic businesses. Against these risks, an MNE deploys resources when it undertakes an investment. The outlay is incurred with the expectation of recovering, at a minimum, the initial investment, along with equilibrium returns on this investment. In other words, the country risk is the upshot of the probability of a risk-event loss and the project's value. Once we accept the magnitude of loss and its probability of occurrence as the two key elements, it is easy to discern that there are two main strategies an MNE can employ to reduce risk: by paring down either the likelihood of the risk-event or the amount of loss. Typically, MNEs will attempt to control both[6].

First, MNEs will consider controlling the probability part. The best position for an MNE is to protect its interest by reducing the probability of loss. To this end, an MNE would apply a tight discipline over its foreign operations, perhaps through vertical integration, controlling its critical assets (e.g., pipeline), technology, brand names, and trademarks, while attempting to develop benefits to host country stakeholders (such as local suppliers, consumers, well paid employees, and investors (Park & Ghauri, 2015; Park & Cave, 2018; Panicker, Mitra, Upadhyayula 2019). Meanwhile, it would preserve its power by linking the project to external stakeholders, such as governments, institutions, and suppliers and increase its bargaining power by exposing the host country to pressures from these groups if the government contemplates expropriation of higher share from the project (Giambona et al., 2017; Yang, 2019). Historically, popular concession agreements from governments of usually less advanced economies have defined the rights and obligations of both parties while increasing the host countries' cost of expropriation (Prud'homme, 2019). If the host country expropriated,

[6] In these cases, which are the focus here, when a multinational corporation undertakes FDI, it is in effect simultaneously writing a call option to the host country on its FDI. The host country exercises this option when it expropriates the multinational corporation's ownership in the foreign facility by paying the exercise price (in the form of compensation, etc.). Viewed in this manner, it is at least conceptually plausible that the host has the privilege to expropriate unfair benefits provided by the multinational corporation to the host country.

the agreement would be broken, thereby incurring the costs of the tarnished image (Mahajan, 1990; Oetzel & Getz, 2012)

Second, MNEs will consider the potential loss issue, slashing the risk loss, which may resort to operational tactics. For instance, MNEs may choose to withdraw the maximum amount of funds from the foreign operation. Techniques often used to accomplish this include manipulating transfer prices, various fees, royalties, choice of invoicing currency, leading and lagging of cash flows, and inter-corporate loans (Mahajan, 1990). Another tactic to control the risk loss is by reducing the value of the project. Shapiro (2013) observes that risk decisions are economically motivated and that a rational regulator will acquiesce to its own higher risk as long as the value of the received FDI exceeds its cost to the host country. This supposition invites the MNE with the following logic to respond: An MNE can reduce at least part of its country risk if it reduces the value of the project to the host. That is the reduction in value, which MNE offers the host country when it undertakes the FDI. In the extreme case that this value is zero, the MNE will expect to incur no economic loss when unfair expropriation occurred. That is identical to a situation with zero probability of loss.

In fact, value-depressing is a tactic typical in the automotive industry. For a long time, carmakers have served developing economies by transferring the production of obsolete models into labor-intensive factories. "We got plenty old legacy models out there," joked one GM manager, "It is one of our legacy benefits" (English, 2007). In 2004, Renault broke the mold with the cheap a four-door sedan, Logan, built at the modified Dacia factory in Pitesti, Romania, and sold it in eastern Europe, with other plants planned in Russia, Morocco, Iran, and Columbia, and a yet cheaper version for China. In 1998, Chrysler produced a car with a body made from the PET plastic used for drinks bottles. The car was designed for emerging nations such as China (English, 2007).

Moreover, in many mega projects, MNEs have been observed to structure their foreign investments and develop operating and financial policies as a means to manage their exposure to risk (Kardes, Ozturk, Cavusgil, & Cavusgil, 2013). Such tactics are usually the case with MNEs belonging to industries where some obsolescing takes place. When obsolescing is an issue, even in the higher the exchange rate volatility, it is less likely that a firm perceives it is poorly performing, high sunk cost projects a source of risk (Berry, 2013). The logic in such conditions is that the MNE writes off its investments in time and host countries expropriation cost increases over time as the project becomes obsolete. The risk of expropriation in such cases naturally falls.

4. Rigor and Scholarly Treatment

4.1 Conceptual issues in the specification

Assessment of risk is useful but not free of challenges. First, it is not easy to distinctly identify risk and its particular category. As a result, conceptually, the country risk remains an eclectic mix of ideas bundled by the analysts' judgment and insight. When the concept cannot be established in precision, its studies remain incommensurate and challenging to replicate. In response, as interest in country risk has expanded, so have the efforts for dissecting it to various risk components. What began as casting the concept in a monolith mold, gradually evolved into an assembly of many components. Under different motives, the studies bred novel conceptualizations of risk variants. For example, credit risk, insurance, economic and exchange rate risk, financial risk, political risk, and corruption have emerged as part of building blocks of country risk. These risks then are defined and examined in detail as principal components of the overall risk. For instance, corruption risk is detailed as a process. Excessive bureaucracy is profiled in lack of transparency and weak implementation of rules and regulations that encourage managers to offer bribes and kickbacks to ensure quick and favorable business deals (Cavusgil, Knight, & Riesenberger, 2020). This approach leads pundits to propose their own divergent approaches to risk delineation (Hammer, Kogan, & Lejeune, 2011; Henisz, 2000). As a result, risk ratings may even warp into a tool for politically-oriented groups to promote their convictions consistent with their political interests or agendas (i.e., Teles & Leme, 2010).

4.2 Empirical issues

Comparable problems ensue on the empirical side. For instance, the topic is prone to measurement-error problems, aggregation bias, omitted variables, simultaneity bias, and endogeneity issues. Unless accounted for, such impediments contaminate the findings and invalidate the generalization. Therefore, risk studies hardly escape from rigor and robustness issues.

Empirical studies suggest that the components of country risk do not correctly load to the principal risk construct. Those components overlap, displaying a significant correlation. Such statistical dependence hampers the definition since it impedes discriminant validity (Erb, Harvey, & Viskanta, 1996). A study by Calhoun (2003) corroborates the findings of high correlations between aggregate risk measures and argues against the presumption that country risk is a multifaceted concept. Composed of dependent risk dimensions, the author concludes, the correlated risk ratings are an incomplete representation of the country risk. Accordingly, highly correlated components compound the problem of accurate measurement and understanding of the phenomenon by clouding the actual significance of particular information captured in each component. That diminishes the distinctions between resulting aggregate risk ratings.

5. In this Issue of JWB and Concluding Remarks

The significance of country risk in IB remains distinct for its role in investing overseas, lending cases, insurance, and so on. Notwithstanding the conceptual and empirical problems, the question becomes whether the construct we call risk can capture the intended meaning and whether it provides with its reliable measure, useful guidance for a firm's road map to international market performance with safety. The six papers chosen for this special issue address such problems at hand and also make a considerable contribution to the IB domain by extending our understanding of the impact of the country risk on FDI.

The first paper by Ying Zhu and Deepak Sardana (2020) starts with an overarching exploration and makes risk and risk mitigation central to the theoretical discussion within the context of dealing with an institutional environment in emerging economies. Based on institutional theory and March's concept of the firm as a 'political coalition' through negotiation and intervention, the authors offer a conceptual framework of risk mitigation by MNEs internationalizing into emerging countries. In particular, by focusing on the political and commercial risks related to institutional influences due to changeable and unpredictable polity and bureaucracy in those markets, they assort the levels of MNEs' political capabilities and the institutional challenges of the host country. Then, they offer risk mitigation strategies that are contextually grounded, following which MNEs can have a higher likelihood of a positive investment outcome abroad (e.g., Lewis, & Bozos 2019). The value of the paper resides in their contribution that they provide a systematic process for risk mitigation among MNEs operating in the strategic sector of emerging markets.

The second paper by Yimai Lewis and Konstantinos Bozos (2019) explores a critical question: if international acquisitions increase acquirers' risk and if cross-border uncertainties can interact and offset such risk. The authors posit that, according to the perspective of integrated risk management, international acquirers might be able to mitigate their overall risk through the interaction of various levels of uncertainties, and they attempt to empirically confirm it. Using asset pricing to measure shifts in risk and a sample comprising international acquisitions undertaken by U.S. firms in 2000-2014, they uncover that acquirers have a propensity to lessen their risk by trading internal and deal-level risk factors off against external and country-level risk factors. That is, risk factors are inter-influential, and thus acquirers' cross-border risk is an outcome of complementary and competing effects from such factors. Taken together, the paper theoretically and practically contributes to the theory of integrated risk management and the cross-border M&A literature by providing a precise measurement of risk as well as distinct risk-mitigating scenarios.

The main objective of the third paper by Seyda Deligonul (2020) is to further deepen the current knowledge on MNE risk by developing a model to explain the asset holding and operating risks in foreign markets. The former refers to ownership of organizational assets in a target market, whereas the latter is represented by propelling them in action as a business. Of the two elements of country risk, operating risks still remain as the essential issue in investment decisions, and adjustment of anticipated economic returns in empirical studies is very scant. The author also pays particular attention to the reality that MNEs possessing sufficient investment experiences often struggle in foreign markets and even realize that disappointing performance leads them to withdraw their investment. To remedy the gaps, the study analyzes the configuration of risk in advanced economies in comparison to developing economies. The results show that the risk stemming from the operation of intangible assets is higher in advanced economies, in which the intangible assets are dominant.

The fourth paper by Quyen Dang, Pavlina Jasovska, and Hussain Rammal (2020) seeks to illuminate adequate risk management strategies related to the timing of market entry and competition, which should be critical factors determining the success or failure of foreign market operations, particularly in Vietnam. Through interviews with key informants from MNEs operating in Vietnam, consulting firms, and government officials, the study points out that the government remains the key stakeholder in the emerging market, and therefore, MNEs' operational success is closely associated with maintaining a favorable relationship with the government. The findings suggest that collaborative relationships with relevant government agencies help MNEs to reduce the operational challenges and competitive intensity in emerging economies, as well as function as a vehicle to demonstrate and prove their contributions to those countries' economic development. The risk mitigation strategies of MNEs embrace managing alertness (e.g., complying with local standards to avoid questioning), portraying good behavior (e.g., creating value by supporting local communities), and navigating through the state of comfort and active mediation (e.g., regular meetings with government officials).

The paper by Ruey Jer Bryan Jean, Daekwan Kim, and Erin Cavusgil (2019) addresses how to manage online platform risk in overseas markets with the growing trend of internationalization through online platforms. The idea behind this study is that, with globalization, small and medium-sized enterprises increasingly utilize online platforms to expand their service offerings internationally. With the growing trend of internationalization through online platforms, the management of online platform risk in international business has been seldom studied. The authors test a theoretical framework of online platform risk for international new ventures (INVs). They attempt to identify series of antecedents of online platform risk and examine the effect of online platform risk on the internationalization scope of INVs using a sample of Chinese INVs. They find that online platform risk triggers the reduction of INVs' internationalization scope, but the negative effect is mitigated by INVs' entrepreneurial orientation.

The final paper by Peter Buckley, Liang Chen, Jeremy Clegg, and Hinrich Voss (2019) builds on previous literature on risk and argues that MNE experience with high risk markets can moderate the negative effect of risk on subsequent entries into other countries. It also calls attention to the limitations of the extant literature and contends that a source of risk explored by those empirical works is exclusively focused on 'political and institutional constraint.' Based on such an idea, the main aim of the paper is to extend the argument to the process of learning and shed light on the residual, unobserved heterogeneity in MNEs' reactions to endogenous versus exogenous risk by using organizational learning theory. The authors sample a group of Chinese listed manufacturing firms and report that international experience does not confer an advantage in dealing with the exogenous risk. This result informs us that conclusions yielded by the extant experiments on political institutions cannot be generalized to all types of risks. The authors also find evidence for considerable variations in MNEs' reactions to endogenous risk, as opposed to exogenous risk.

We are pleased to present this compendium in a special issue to extend our knowledge and to contribute to the international business literature. A wide variety of research gaps that were conveyed in the original call for papers have been addressed by these papers. We hope that this issue will lay a foundation with its rich content, and it will inspire future studies.

Acknowledgment: The authors would like to express their appreciation to all scholars who have submitted papers for the special issue, numerous reviewers who poured over submissions and offered expert advice, and the editors of the ***Journal of World Business****. In particular, we thank Professor Jonathan Doh, former Editor-in-Chief, and Professor Ajai Gaur, the current editor. We sincerely appreciate their vision for the special issue and their efforts that made this issue a reality.*

References

Aabo, T., Pantzalis, C., Sørensen, H. and Toustrup, M.T., 2016. Corporate risk and external sourcing: A study of Scandinavian multinational firms. *International Business Review*, 25(6), 1297-1308.

Allen, F., & Carletti, E. (2013). What Is Systemic Risk? *Journal of Money, Credit and Banking*, *45*, 121–127.

Arellano, C., Bai, Y., & Lizarazo, S. (2017). Sovereign Risk Contagion. *National Bureau of Economic Research*. Retrieved from https://www.nber.org/papers/w24031.pdf

Bekaert, G., Harvey, C. R., Lundblad, C. T., & Siegel Stephan. (2014). Political Risk Spreads, NBER Working Paper No. 19786, Cambridge, MA 02138.

Bergner, D. J. (1982). Political Risk Analysis: An Asset Now, Soon a Must. *Public Relations Quarterly*, 2.

Berry, H., 2013. When do firms divest foreign operations? *Organization Science*, 24(1), 246-261.

Bettis, R. A. & Thomas, H. (1990) Risk, Strategy, and Management. Research Collection Lee Kong Chian School of Business.

Available at: https://ink.library.smu.edu.sg/lkcsb_research/4003

Bhaumik, S. K., Owolabi, O. & Pal, S. (2018). Private information, institutional distance, and the failure of cross-border acquisitions: Evidence from the banking sector in Central and Eastern Europe, *Journal of World Business*, 53(4), 504-513.

Bouchet, M. H., Clark, E., & Groslambert, B. (2003). Country Risk Assessment: A Guide to Global Investment Strategy. West Sussex PO19 8SQ, England: John Wiley.

Butler, K. C., & Joaquin, D. C. (1998). A Note on Political Risk and the Required Return on Foreign Direct Investment. *Journal of International Business Studies*, 29(3), 599–607.

Buckley, P. J., Chen, L., Clegg, L. J, & Voss, H. (2020). The role of endogenous and exogenous risk in FDI entry choices, *Journal of World Business*, 54(5), 101040 (forthcoming) https://doi.org/10.1016/j.jwb.2019.101040

Calhoun, M. A. (2003). Country Risk: Its Measurement and Impact on Foreign Direct Investment (Ph.D. Dissertation). Department of Management and International Business, New York University.

Cavusgil, S. T. and Deligonul, Seyda. (2012). Exogenous Risk Analysis in International Supplier Networks: Conceptualization and Field Research Findings," *Information Knowledge and Systems Management*, Vol. 2, 131-149.

Cavusgil, S. T., Knight, G., & Riesenberger, J. R. (2020). International Business: The New Realities, 5th Edition, Upper Saddle River, New Jersey, Pearson.

Damodaran, A. (2003). Country Risk and Company Exposure: Theory and Practice. Journal of Applied Finance, 13(2), 3–66.

Damodaran, A. (2018). Deja Vu In Turkey: Currency Crisis and Corporate Insanity! Retrieved from http://aswathdamodaran.blogspot.com/2018/08/deja-vu-in-turkey-currency-crisis-and.html

Dang, Q., Jasovska, P., & Rammal, H. (2020) International business-government relations: The risk management strategies of MNEs in emerging economies, *Journal of World Business* (forthcoming)

Deligonul, S. (2019). Gauging the Liability in Broken Trust: Relational Contracting and the Consequent Cost, St. John Fisher College, Rochester, NY.

Deligonul, S. (2020). Multinational country risk: Exposure to asset holding risk and operating risk in international business, *Journal of World Business* (forthcoming)

Dewit, G. (2002). Risky Business: Multinationals, Uncertainty and Asymmetric Insurance. *Economica*, 69(275), 357–370.

Dornbusch, R., Park, Y. C., & Claessens, S. (2000). Contagion: Understanding How It Spreads. *The World Bank Research Observer*, 15(2), 177–197.

Ehrlich, I., & Becker, G. S. (1972). Market insurance, Self-insurance, and Self-protection. *The Journal of Political Economy*, 80(4), 623–648.

English, A. (2007). The Third World Car War. Retrieved from https://www.telegraph.co.uk/motoring/2746251/The-Third-World-car-war.html

Erb, C. B., Harvey, C. R., & Viskanta, T. E. (1996). Political risk, Economic Risk, and Financial risk. *Financial Analysts Journal*, 52(6), 29–46.

Franks, D. M., Davis, R., Bebbington, A. J., Ali, S. H., Kemp, D., & Scurrah, M. (2014). Conflict Translates Environmental and Social Risk into Business Costs. Proceedings of the National Academy of Sciences of the United States of America, 111(21), 7576–7581.

Giambona, E., Graham, J.R. & Harvey, C. (2017). The management of political risk, *Journal of International Business Studies*,48(4), 523-533.

Hammer, P. L., Kogan, A., & Lejeune, M. A. (2011). Reverse-Engineering Country Risk Ratings: A combinatorial non-recursive model. *Annals of Operations Research*, 188(1), 185–213.

Henisz, W. J. (2000). The Institutional Environment for Economic Growth. *Economics & Politics*, 12(1), 1–31.

Henisz, W. J. (2003). The power of the Buckley and Casson thesis: The ability to manage institutional idiosyncrasies. *Journal of International Business Studies*, 34(2), 173–184.

Henisz, W. J., Mansfield, E., & Von Glinow, M. A. (2010). Conflict, security, and political risk: International business in challenging times. *Journal of International Business Studies*, 41(5): 759-764

Intemann, K. (2015). Distinguishing between legitimate and illegitimate values in climate modeling. *European* Journal for Philosophy of Science, 5(2), 217–232.

"Bryan" Jean, R.J., Kim, D. & Cavusgil, E., (2020). Antecedents and outcomes of digital platform risk for international new ventures' internationalization. *Journal of World Business*, 55(1) (forthcoming) https://doi.org/10.1016/j.jwb.2019.101021

John, A., & Lawton, T. C. (2018). International political risk management: Perspectives, approaches and emerging agendas. *International Journal of Management Reviews*, 20(4), 847-879.

Kardes, I., Ozturk, A., Cavusgil, S.T. & Cavusgil, E. (2013). Managing global megaprojects: Complexity and risk management. *International Business Review*, 22(6), 905-917.

Leavy, B. (1984). Assessing country risk for foreign investment decisions. *Long Range Planning*, 17(3), 141–150.

Lessard, D. R. (1996). Incorporating country risk in the valuation of offshore projects. *Journal of Applied Corporate Finance*, 9(3), 52–63.

Lewis, Y., & Bozos, K. (2019). Mitigating post-acquisition risk: The interplay of cross-border uncertainties. *Journal of World Business*, 54(5), 100996 (forthcoming) https://doi.org/10.1016/j.jwb.2019.100996

Mahajan, A. (1990). Pricing Expropriation Risk. *Financial Management*, 19(4), 77–86.

Miller, K. D., & Reuer, J. J. (1996). Measuring Organizational Downside Risk. *Strategic Management Journal*, 17(9), 671–691.

Oetzel, J. & Getz, K. (2012). Why and how might firms respond strategically to violent conflict? *Journal of International Business Studies*, 43(2), 166-186.

Panicker, V. S., Mitra, S. & Upadhyayula, R. S. (2019). Institutional investors and international investments in emerging economy firms: A behavioral risk perspective *Journal of World Business*, 54(4), 322-334.

Park, B. I., & Ghauri, P. N. (2015). Determinants influencing CSR practices in small and medium sized MNE subsidiaries: A stakeholder perspective. *Journal of World Business*, 50(1), 192-204.

Park, B. I., & Cave, A. H. (2018). Corporate social responsibility in international joint ventures: Empirical examinations in South Korea. *International Business review*, 27(6), 1213-1228.

Prud'homme, D. (2019). Re-conceptualizing intellectual property regimes in international business research: Foreign-friendliness paradoxes facing MNCs in China, *Journal of World Business*, 54(4), 399-419.

Reuer, J. J., Shenkar, O., & Ragozzino, R. (2004). Mitigating risk in international mergers and acquisitions: the role of contingent payouts. *Journal of International Business Studies*, 35(1), 19-32.

Shrader, R. C., Oviatt, M.B, & McDougall, P.P. (2000). How new ventures exploit trade-offs among international risk factors: Lessons for the accelerated internationization of the 21st century. *Academy of Management Journal,* 43(6), 1227-1247.

Shapiro, A. C. (2013). Multinational Financial Management (10th): John Wiley.

Teles, V. K., & Leme, M. C. (2010). Fundamentals or Market Sentiment: What causes country risk? *Applied Economics*, 42(20), 2577–2585.

Ullah, S., Wang, Z., Stokes, P. & Xiao, W. (2019). Risk perceptions and *risk management approaches of Chinese overseas investors: An empirical investigation, Research in International Business and Finance*, 47, 470-486.

UNCTAD. 2018. World investment report, Geneva: United Nations (https://unctad.org/en/PublicationsLibrary/wir2019_en.pdf, Downloaded 25 September, 2019).

Yang, D. (2019) National treatment, institutions and IP uncertainties: An analytics of compliance, change and comparability, *International Business Review*, 28(5), 101585.

Zhu, Y. & Sardana, D. (2020). MNC's Risk Mitigation Strategies in Emerging Markets: A Political Coalition Perspective and Propositions, *Journal of World Business* (forthcoming)