# MASTER THESIS: INTERNATIONAL BUSINESS ECONOMICS

Entrepreneurial Risk Management: A literature review of entrepreneurial research and analysis of Risk Management in International New Ventures

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## Summary:

**Purpose:** The purpose of this thesis is to perform a literature review and examine it for how INV's handle risk management during the early periods of internationalization. This paper seeks to address the gap in knowledge that surrounds the early internationalization period of INV's/BG's. Too few studies are dedicated to how INV's should handle risk in the early internationalization period and this thesis address that gap.

**Methodology/theoretical framework:** A literature review of published studies in 2012 and 2013 were performed. A period of two years seemed adequate for a master thesis. A total of 19 articles were found relevant for review in the international entrepreneurship database (http://ie-scholars.net). Furthermore, a risk management theoretical book was selected, for a comparative analyse on to assess how risk management during the INV's early internationalization would compare to case-tested risk management theory.

**Findings**: The study found a consensus between the risk management in the literature review and risk management casework. The result of the study is that early internationalization between showed INV's/BG's should be both proactive and reactive when managing risk, by finding alternative paths to minimize risk, and once established, use resources such as network connections to transfer risk out of the company or finding ways to mitigate risk. Firms should be proactive, and prepare for risk events before they happen. The literature review displayed a method of risk avoidance by focusing on the market needs to ensuring growth and prosperity in the enterprise. INV's/BG's manage risk in the early internationalization period by having an adaptable business structure and market presence, and by only taking on risk that can be accepted or managed through partnerships.

**Limitations:** One important limitation to this paper is that it is only limited to international entrepreneurship and the database (http://ie-scholars.net/) reviewing a two-year period, and as such, has not investigated if there are other types of risk management during early internationalization periods available.

**Implications and future research:** I believe this thesis can benefit scholars that find the subject of risk in international entrepreneurship interesting and want to build on the theories discussed in this thesis and practitioners can benefit from gaining an understanding of risk and use the theories discussed here on their own practice.

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## 1. Introduction:

The aim of this thesis is to explore how International New Ventures (INV)/Born Global (BG) manage risk associated with early internationalization. To achieve this goal I will review the literature and examine what scholars have covered in regards to the risk associated with INV's and BG's early internationalization. Risk and early internationalization is described as being influenced by many different factors, any of which can impact the outcome of the internationalization. How the specific risk situation is managed by INV's/BG's is a huge topic, but given the width of the subject many scholars choose specific types of firms or cases and argues how these handle challenges, including but not limited to risk. The specific topic of risk management during early internationalization is therefore under-researched. This warrants more investigation into the topic and is a gap of knowledge in the literature. Therefore the following question is asked: ***How do International New Ventures and Born Global manage risks associated with early internationalization?***

Scholars have used theories throughout the literature to find an explanation for how managers and CEO's perceive risk and manage risky situations, however, during internationalization there are several other factors to be aware of, for instance, environmental and economic factors, which may lead to risky behaviour by the management, or the firm may face unknown risks caused by environmental conditions, which again could change the outcome of the internationalization. The studies have all investigated different research objectives and by posing differing research questions they have ultimately come to either different or similar conclusions.

This thesis will focus on the theoretical framework and findings of two years of international entrepreneurship research, with a chapter for comparison and discussion of similarities or differences in the studies. The goal of the literature review is to undercover how scholars use risk management in their studies and compare it to a risk management theoretical framework later in the thesis.

I will add to the academic literature by highlighting the risk management areas of the INV and BG literature, some may need further study on risk management and in the conclusion mention important decisions within risk management that firms should know of during internationalization. This thesis is exploratory in nature, as it utilizes a literature review to uncover possible gaps in knowledge in current and relevant studies performed by scholars, and then adds a perspective from existing field-tested risk management theory. However, before the theoretical parts are presented, I will present an overview of the literature, to present what is known, and discuss what is not known. This is useful step to get an overall assessment of the literature before reviewing the literature.

The authors in the international new venture literature focus on the different types of challenges these young firms may be facing, however an important aspect, and the focus of this paper, is the risk involved in internationalization. Risk implies a probability of a negative effect; there are two aspects of risk, the uncertainty surrounding a given event, or the adverseness of the effect. Risk is therefore characterized by its likelihood and impact. In layman's terms, this can simply be called the odds, we may know the main parameters and we may be able to calculate the odds, but likelihood and impact may not be quantifiable, which is inherit to the concept of risk. We do not know, what we do not know, and as such, only in the most predictable cases can a likelihood and effect be quantified. Low predictability often occurs when there is little historical data available. (**Ojasalo, 2009)**

Risk is best understood in a context; it is not enough to talk about an uncertainty and the odds of these happening. Some companies ease their market entry by forming a strategic partnership, and thus manage it by sharing some the risk, with the goal of gaining a competitive advantage in the new market. However, having a partner may carry its own risk, and may also leave the company open to an unintentional knowledge/capability transfer. Finding a partner is one way for an INV/BG to reduce its financial risk and increase the advantage of a market entry (Moen, Bakås, Bolstad, Pedersen 2010).

We therefore know that INV's/BG's can avoid or mitigate certain risk events, but we do not know how the decision is made, or what actions are taken in regards to specific risk. Simply stating that using network connections can mitigate risk is not enough, the probability of impact and the type of loss should also be considered, and how this knowledge has led the firm has come to the decision, that the best outcome for the firm is achieved through a partner has to be investigated too.

It is also relevant to consider performance in small businesses, which can be measured in many different ways, and to some it's complex definition, full of many dimensions, while others find it very simple. Prior studies have regarded small firm's performance from three perspectives: economic, sustainable and personal. Most researchers focus on the financial growth of a firm and this study will use previous studies as it main data information, which means it is only logical that financial performance is the most valid to consider. (Raymond, Marchand, St-pierre, Cadieux & Labelle 2013)

A few economic performance key points from the owner/manager's perspective are.

1. *Focus on shareholders and debt holders' interests, emphasis on past events*
2. *Financial returns*
3. *Financial variables or indicators*
4. *Profit maximization, pursuit of growth*
5. *Firm's growth and liquidity, satisfaction of customers, quality of products and services offered*

(Source: (Raymond, Marchand, St-pierre, Cadieux & Labelle 2013)

One or more of these key points should be present when regarding economic performance, and while the reviewed articles will focus on risk and risk assessment, performance should also be kept in mind, and reducing risk exposure should inherently increase performance. (Raymond, Marchand, St-pierre, Cadieux & Labelle 2013)

## 2. Research question and methodology:

When INV's/BG's internationalizes they have to consider different factors and how to handle different challenges, which should be an integrated part of any company's decision-making process. The risk associated with expanding internationally may be external or internal to the company. When choosing to enter a foreign market, which factors determine the entry-mode? There are many questions like this that managers need to ask in order to successfully execute an internationalization strategy. The type of business will also be a factor, the resources available for an already established manufacturing firm with a solid market share in the domestic market is higher than an IT start-up company. I have chosen to focus on the Born Global and International New Venture literature as the two firms are often studied in similar situations and both firms are interchangeably linked by the literature as having the ability to rapid internationalize and achieve high growth. Common for INV's/BG's is that they often need to think differently from multinational corporations when expanding international, this is mainly due to the limited resources available to these companies, which may also inhibit their knowledge of where to expand and perception of opportunities and the risk associated with their expansion. To undercover how INV's/BG's manage risk during the early internationalization period, I have decided to search through the literature and investigate what scholars have covered in regards to the risk associated with these firm's (INV & BGs) early internationalization. However, risk should also be considered in regard to the performance of the INVs/BGs, as some risk is worth taking, and the problem may lie in how managers handle the risky situations.

I will investigate the the following as my research question: ***How do international New Ventures and Born Global manage risks associated with early internationalization?***

## 2.1 Methodology:

This thesis is of an exploratory nature and will be limited to 2 years of research in the International entrepreneurship database (http://ie-scholars.net). I choose to limit the scope of my thesis to the years 2012-2013, to explore how the researchers of international entrepreneurship (the domain of INVs) choose to investigate risk and the international entrepreneurship database should be a complete database in regards to INV/BG literature. The research question is formulated as an open-ended question to keep the study in an exploratory nature.

My method for reviewing the various studies, were to find published articles on either Born Global companies or International New ventures. These terms are used loosely and Born Global and International New Venture are interchangeably linked to each other and used throughout the literature as the same name for the same type of company, I did therefore not distinguish between the two names for the type of firm. I focused on searching for articles about the early, rapid or quick internationalization of BGs/INVs, mainly in the title or study summary.

The criteria for selection, were a search through two years of research articles, using rapid, quick or early internationalization as a search parameter, and also I used the terms "risk management" or just "risk", which would eliminate the articles that did not get any hits on Risk. I selected every article that would include any type of risk associated with internationalization and put them in a folder. This was named that the first pick-phase. It was important for my study to narrow the search, and the search strings are unspecific in regards to the type of risk, however it was useful for eliminating the non-risk related articles.

The studies that were selected in the first-pick phase were reviewed to determine the relevance for this study. The second phase of selecting articles for the literature review was a more thorough reading of the studies; several were excluded due to the subject not coinciding with this study.

The relevant articles for the literature review were put in a folder named second-pick and were later read and reviewed in this thesis. The theoretical framework, and findings of the various studies are discussed in the literature review and discussion of literature review chapters. I have also limited myself to empirical studies only, studies with only a theoretical or historical perspective will not be reviewed. Empirical studies may contain case studies, surveys (phone, e-mail, web-based), personal interviews, Country or regional public data.

A total of 228 articles were downloaded between the years 2010 and 2013. 24 articles from 2013 made it through first pick phase, 33 articles from 2012, 30 articles from 2011 and 16 articles from 2010. I limited my literature review to studies from 2012 and 2013 due to time constraints, at the time of the review, the 2014 articles were not completely published and were not available for a complete review. 19 articles were selected during the second-pick phase for review.

I will conduct my literature review according to the following design. The studies I have chosen are based on empirical work or have other forms primary data sampling, such as databases. The literature review will discuss the author's theoretical framework and what the authors could conclude based on their findings. Furthermore, I will highlight how risk was managed and discuss the different subjects and theories. I have created the following table to show the journals, year published and authors of the chosen articles.

| Journal | Year | Author | Study and theory |
|---|---|---|---|
| JIM | 2012 | Yanto Chandra, Chris Styles, and Ian F. Wilkinson | Born Globals with Opportunity based view during Rapid internationalization |
| JWB | 2012 | Kalanit Efrat & Aviv Shoham | Short and long time performance drivers in INVs |
| MIR | 2012 | Susan Freeman · Kate Hutchings · Sylvie Chetty | How born globals internationalize to Cultural proximate markets |
| IMR | 2012 | Lee Li, Gongming Qian & Zhengming Qian | Born Globals early internationalization and performance in high tech industries. |
| JIBS | 2012 | Panagiotis Ganotakis and James H Love | Export firm's performance and prosperity, the role of the founding entrepreneurial team. |
| JMG | 2012 | Arild Aspelund & Carina Flaam Moen | INVs governance structure and how it helps with rapid internationalization. |
| JWB | 2012 | Maria Ripolle & Andreu Blesa | INVs and how their marketing capabilities influence their entry mode. |
| JSBED | 2012 | Isobel Cunningham, Sharon Loane and Pat Ibbotson | How INVs internationalizes from with RBV and dynamic capabilities. |
| IMM | 2013 | Peter Gabrielsson & Mika Gabrielsson | INVs survival and growth using decision maker logic based on effectuation theory. |
| IMR | 2013 | Rohit Deshpande, Amir Grinstein, Sang-Hoon Kim & Elie Ofek | INV's strategic orientation and business performance |
| JIBS | 2013 | Erkko Autio, Saurav Pathak & Karl Wennberg | The consequence of cultural practices on entrepreneurial behavior by investigating BGs. |
| ISBJ | 2013 | Nathaniel Boso, John W. Cadogan & Vicky M. Story | Entrepreneurial & Marketing Orientation as drivers for BG's product innovation success. |
| JBV | 2013 | Stephanie A. Fernhaber & Dan Li | How INVs are receive international exposure through network partners. |
| IMM | 2013 | Fabian Sepulveda & Mika Gabrielsson | BG's network development and growth from an RBV perspective. |
| IMR | 2013 | Susan Freeman, Seyda Deligonul & Tamer Cavusgil | How BG's use strategic re-structuring through the process of de-internationalization and re-internationalization. |
| JIE | 2013 | Vincenza Odorici & Manuela Presutti | BG's strategic orientation and how different degrees of entrepreneurial experience affects internationalization. |
| IMR | 2013 | Kalanit Efrat & Aviv Shoham | How the environment and strategic |

| | | | |
|---|---|---|---|
| | | | orientation affects BG's choice of entry mode |
| JIE | 2013 | Stephanie A. Fernhaber | Relationship between INVs internationalization and performance. |
| SEJ | 2013 | Yasuhiro Yamakawa, Susanna Kvavul, Mike W. Peng & David L. Deeds | INVs from emerging economies and what drives them to internationalize, with a focus on intangible knowledge. |

| **Journal abbreviations** | |
|---|---|
| Abbreviation | Journal Name |
| JIM | Journal of International Marketing |
| JWB | Journal of World Business |
| MIR | Management International Review |
| IMR | International marketing review |
| JIBS | Journal of International Business Studies |
| JMG | Journal of Management and Governance |
| JSBED | Journal of Small Business and Enterprise Development |
| IMM | Industrial Marketing Management. |
| ISBJ | International Small Business journal |
| JBV | Journal of Business Venturing |
| JIE | Journal of international Entrepreneurship |
| SEJ | Strategic Entrepreneurship Journal |

It was required to review relevant risk management theories to further the project; this was obtained by searching the Aalborg University library database using the search string "Risk Management AND Entrepreneurship". The search was further limited to books only. A separate search on articles yielded few useful sources of information that were as a complete as published books. The book "Winning with risk management" was chosen as the primary source of information as it contains information on risk types, risk frequency and a series of case by case studies where the risk management framework was put to use and discussed.

## 3. Literature Review

In this section I will review the selected articles as previously mentioned in the methodology chapter. The section is divided by theoretical framework used by the authors, some articles use more than one theoretical framework and I will arrange and use the articles after what's most useful for this thesis, that means that not all the theoretical frameworks in the articles will be discussed at length, and the ones that are discussed are the ones that are most useful for this thesis.  Main theories discussed in this thesis are Entrepreneurial orientation, Resource- and knowledge based view, culture strategic orientation and governance structure. It is important to note that for the purpose of this thesis, it does not matter how the articles view internationalization theories but how the authors of the studies assess risk management or if the article has any type of assessment of risk at all.

### 3.1 Entrepreneurial Orientation:

Entrepreneurial orientation is a framework that encompasses the firm's (usually the founder's) ability to be proactive and innovative and how much risk-taking is accepted. Authors of the literature has discussed that a high EO is important for firms in the early stages of internationalization, which also means that a certain amount of risk-taking is involved and it is therefore imperative for the firms survival how the risks are dealt with. The literature therefore often discusses how some founders have a high proactiveness, but little innovation and risk-taking, and compare those founders to others with maybe less proactiveness, but high innovation skills and more risk-taking initiative.

Gabrielsson & Gabrielsson (2013) developed a dynamic model to explain the growth phases in B2B INVs, with a focus on decision-making logic. This sets the study slightly apart from other researchers who uses the entrepreneurial orientation framework to explain how INVs, in the early years, seizes opportunities in order to survive. The model developed by Gabrielsson & Gabrielsson 2013 still highlights the importance of using opportunities, but also contradicts the existing wisdom, that an entrepreneurial orientation is mainly beneficiary. Their reasoning for developing the new model lies in the criticism of previous organizational models that focused on stages, linearity, and characteristics. These models were not analytical in regards to the growth factors, but descriptive, and the authors believe the previous models failed in considering companies growth, and not just in size, but also in a global direction. In light of the earlier lifecycle model, the new model, were developed to depict a dynamic view of INVs over time, which include the growth and survival of INVs, but also allow of retrenchment. Gabrielsson & Gabrielsson (2013) debates how effectuation or causation theory is the most beneficiary, and how they are two alternative logics used by entrepreneurs. Effectuation theory is especially important in regards to decision-makers logic when handling non-predictable strategies. Moreover, the effectuation theory can help firms understand how to integrate and better understand resources; capabilities and entrepreneurial orientation, which ultimately can help the firm survive. Entrepreneurs using effectuation theory logic as part of their decision-making logic uses less their own resources and rely more on the capabilities offered by their partners.  The study by Gabrielsson & Gabrielsson (2013) showed that it's important for INVs to raise funds and other resources from various outside sources. With sufficient resources and existent necessary experience the INVs could induce growth and survival. By using networks the INVs can globalize without making large investments or taking unnecessary risks, which in turn increases the growth rate and establishes credibility. The firms with a high EO in the early stages of internationalization were found to eventually reduce in EO overtime as INVs succeeded. An excessive amount of EO may occupy the survival of the INV in all phases of internationalization. Risk-taking was found necessary for rapid growth and foreign expansion, though too high EO can lead to uncontrolled risk-taking during rapid growth.

Gabrielsson & Gabrielsson (2013) showed how INV's can prepare for uncertain strategies and minimize risk by using outside resources, as prior research has also debated, using networks to create opportunities and minimize risk is a large part of the internationalization process for INVs. Risk-taking is necessary for expansion, and INV's need to pay close attention to how much risk they are exposed to, but to minimize the risk-taking, Gabrielsson & Gabrielsson (2013) discussed using firm network partner's capabilities in order to minimize the risk. Though of course it is also important to note what type of internationalization is used by the INV's when discussing using partner resources. Exporting should be relatively safe, however, some types of partnerships, especially in high-tech industries, may run the risk of knowledge spill over and thus run the risk of the network partner gaining essential knowledge. In regards to risk management, it is therefore important to note what type of product is sold and will a potential partner be able to take knowledge away something from it. I am highlighting knowledge spill-over as a risk to emphasize that not all problems can be helped by a partner, some risk (such as financial risk) remain within the company, but that does not mean it cannot alleviated.

However, transferring the risky parts of business is not the only solution to internationalization. Boso, Cadogan & Story (2013) studied the effect of entrepreneurial orientation and market orientation as drivers for product innovation success among Ghanaian exporters, which allows the firms to have a market-driven exploratory capability, based on an export EO behaviour. This means the firm gains the ability in export markets to take risks and operate proactively and innovatively. Export entrepreneurial-orientated behaviour (EOB) and market-orientated behaviour (MOB) are intangible resources within the exporters, and may play an important role in shaping the product's success. Both EOB and MOB are complementary strategic orientations that work well in synergy and should be pursued when possible. Export EOB expands upon the more traditional EO, along with innovativeness, risk-taking and proactiveness are also competitive aggressiveness and autonomous export behaviour. Though each of the characteristics of EOB may vary, depending on the opportunity. The results of the study by Boso, Cadogan & Story (2013) found that firms adopting an EOB and MOB should see a positive effect in competitive markets, even more so if the two orientations were designed to complement each other. Business success depends on both explorative and exploitative business activities and the success of the innovative export product increases as export EOB and MOB levels increases. Though, the study also mentions that technology-oriented firms are encouraged to take risks, be open to new ideas and innovative thinking and be proactive. Risk-taking is the willingness to commit resources to pursue business opportunities that hopefully have an unimportant amount of risk of failure. It has therefore been suggested that firms employ cost minimization to reduce the risk of losing any financial resources. INVs are often associated with a minimal amount or limited amount of financial resources and should protect the resources they have. EOB and MOB are encouraged in the study, but the firms also need to balance their risk versus profits, and setting an unattainable goal can still be fatal to a newly started business, despite the strategy they employ.

Ganotakis & Love (2012) investigated the characteristics and experience of the entrepreneurial founding team in BGs and how performance and export orientation was affected. The study set out to identify which human capital aspects was relevant to the different stages of internationalization through export. Export decisions are based on perception of risk, and cost associated with export and those factors determines the strategic decisions.  Using a general construct of entrepreneurial internationalization (External- and Internal-environment (resources), entrepreneurial team and firm performance) the study investigated human capital effect and subsequent performance. Human capital refers to the skills and experience of the entrepreneurial team (or entrepreneur), and the accumulated knowledge and experience plays a major role in the internationalization process. However, when regarding human capital, greater input does not always equal greater output, and the entrepreneurial team may not always have the human capital to overcome all the challenges of internationalization. Meaning that the skills necessary for entering and succeeding may not be the same, and therefore, may not always be available among the entrepreneurial teams accumulated knowledge. Experience is a useful too when considering new and risky enterprises, however, prior research has found that risk perception is lower in exporters than non-exporters. Experiential learning significantly provides a more realistic expectation about growth and foreign markets when exporting. Experiential learning aid in better risk perception and increases the level of general knowledge, which increases the entrepreneur's ability to evaluate and react to foreign market opportunities more quickly. Prior research found that same-sector experience lead to higher firm performance, as the firm benefits from already accumulated knowledge and understanding of products and associated technologies. The study by Ganotakis & Love (2012) found that commercial and managerial experience could provide entrepreneurs with the necessary skills to gather information and evaluate opportunities in foreign markets and mitigate perception of risk in international markets. Contrary to expectations, general experienced were not found to have any significant effect on export prosperity, although older and more experienced entrepreneurs may perceive their already accumulated experienced as enough to make decisions, prior research has argued that older entrepreneurs are more risk averse and less comfortable with uncertainty. The study concluded that persistent export performance can be difficult, as the human capital skills required for entering and succeeding in export markets are quite different. Succeeding in export markets may require ventures to invest in technical and business education, and the study's findings suggested education rather than experience is the key to building the human capital skills necessary to succeed in export markets.

It is not without financial cost to education employees, but it can be considered less risky to invest in the firm's own human capital rather than venture into an unknown foreign market with out the appropriate skills to succeed. Human capital skills may identify better opportunities over time and it is more likely to be a good inward investment in order to increase firm performance and reduce overall risk when approaching opportunities. Another study Chandra, Styles & Wilkinson (2012) suggested that gradual increase in commitment and interest in foreign markets parallels with greater degrees of risk and entry commitment, though not for all firms are willing to commit more to a foreign market. Should firms increase their entry commitment, it would make sense for them to do this gradual as their human capital and capabilities increases, and the study by Ganotakis & Love (2012) taught us that experiential learning aid in better risk perception and general knowledge, which further benefits the firm when choosing to increase their market commitment.

Sepulveda & Gabrielsson (2013) Studied how BG's network contributes to the growth of the firm's internal resources (Resource based-view) and entrepreneurial orientation (EO). BG's suffer from liability of smallness, newness and foreignness, and in order to compete they have to make the best use of their resources and sell their output in various countries. In order to overcome these challenges BG's rely on their network relationships. The BG's network is a collective of connections such as clients, business intermediate, social contacts and any other that can provide some form of resource that can be exchanged with the firm. Network relationships therefore provide BGs with a support to help their survival, internationalization and growth beyond the early stages. However, BG's also accumulate their own resources and are slowly able to take more action on their own. Much of the prior research on BGs networks has overlooked how the development of the BG's internal resources relates to the development of their networks. For instance, Ganotakis & Love (2012) discussed human capital development, which can be considered an internal resource in regards to export activities, not network development.

The study by Sepulveda & Gabrielsson (2013) found that resource accumulation leads to network content changes, meaning the INV's/BG's network content are also developed simultaneously with the resource accumulation, and network management relates to INV's/BG's entrepreneurial orientation, which are usually considered strong. The authors also noted that not all benefits gained from networks are advantageous to the firm, network benefits include opportunities, competitive advantages and risk/uncertainty management. Of the three elements used to asses EO, only proactiveness were highly influenced by network management, the two others (innovativeness and risk-taking) were only to a lesser degree. The relationship between internal resource development and network management is strong, and curiously enough, only proactiveness were highly influential on network management, which can be understood as BG's gearing their networks toward proactively finding new opportunities, and less about how risky these opportunities are, or how innovative they have to be in order to achieve their goal. Maybe, this is due to the common trend among the firms in the case study by Sepulveda & Gabrielsson (2013) to share business risks, and thus, with this "safety net", the firm aimed its goals toward being proactive.

Generally speaking, having a safety net in your network is ideal, however, firms have to be careful they don't develop a false sense of security and start to ignore risks or stop taking them seriously. Having a complete EO at the beginning of the internationalization process should therefore be preferable and the study by Sepulveda & Gabrielsson (2013) did not ignore risks, but the examined firms were less focused on risk, but being primarily proactive in network development is not always enough. Having the right network connections can certainly help a small firm while they accumulate resources and develop their own capabilities to handle future challenges, and following the decision-maker logic by Gabrielsson & Gabrielsson 2013, some of these challenges can be overcome by relying on partners to help minimize the risk. Risk perception is not a homogeneously constant among entrepreneurs. The background of the entrepreneur often plays a huge role in how the internationalization process is handled and how risks are perceived.

## 3.2 Cultural Practices:

The cultural background of the founding team especially shapes the entrepreneurial business, perception of opportunity and risk and willingness to enter foreign markers, all have an effect, even to a minor degree, on the INV's ability to do business and ultimately the success of the firm.

Autio, Pathak & Wennberg (2013) explored how entrepreneurship can be influenced by the effect of national culture, by examining the knowledge gap between culture and individual entrepreneurial behaviour. Thereby exploring the effect of cultural practices on entrepreneurship, whereas previous studies have often studied the individual's perception of culture on entrepreneurial behaviour. In their study, Autio, Pathak & Wennberg (2013) used country-level predictors to predict groups of individual behaviours.  Thus, looking at culture as a country-level collective entity, and how it affects individual behaviour. In their study, the authors theorized that national culture could influence economic risk and opportunities, through economic structures, behaviours, practices and resource allocation. It was also theorized that national culture could influence the reaction to an entrepreneurial entry, success and failure. Cultural influences and cultural practices such as Institutional collectivism, performance orientation and uncertainty avoidance were anticipated to resonate with the individual entrepreneurial traits of proactiveness, competitive orientation, innovativeness and risk-taking. As entrepreneurs expand into new economic systems they innovate their products while also taking on risk. Typically, as time and effort are put into an entrepreneurial enterprise, the aspects of innovativeness and risk-taking will resonate closely with the "uncertainty avoidance" dimension of cultural practices theory. There was evidence of entrepreneurial characteristics being applied across broad cultural contexts, meaning that EO characteristics (innovativeness, proactiveness, risk taking) are perceived similarly in various cultures.  For the entrepreneur, the entry and pursuit of growth can have widespread effects on the relationship with the community. Both economic and social risks are regulated by how the community react to the entrepreneurial behaviour, and behaviour is in turn based on the cultural practices. A society can make government grants for businesses available, and by making such resources available, the post-entry entrepreneurs can look at risk-taking opportunities as more feasible. High individualistic societies may not build the risk-sharing mechanisms in their society that can encourage entrepreneurs to take risks, which may result in entrepreneurs being more cautious when seeking growth. This type of practice may even inhibit entry. In their study, Autio, Pathak & Wennberg (2013) found that cultural practices of uncertainty avoidance are negatively associated with entrepreneurial entry, but growth aspirations are not. Performance orientation are however positively associated with entrepreneurial entry, but not with growth aspirations. Basically the above means that culture may influence the entrepreneurs desire to take risks and avoid uncertainty, but not his wish for growth unless the entrepreneur's culture makes him performance oriented, in which he is more likely to be able to take risks and thus have a low uncertainty avoidance, but the wish for growth post entry is less affected by cultural practices.

There are many different cultural practices and attributes that can affect entrepreneurial behaviour in multiple ways and common for them all, is that they affect how the entrepreneur internationalizes to foreign markets. Autio, Pathak & Wennberg (2013) suggested that societies should promote the entrepreneurial role models as a cultural norm, which would encourage entrepreneurs to go abroad and thus promote a lower uncertainty avoidance, which might be beneficiary for entrepreneurs in order to overcome the initial challenge of going abroad, but does not explain how the risks of going abroad is managed.

Though the initial challenge of internationalization can be overcome by several means. Freeman , Hutchings & Chetty (2012) Argued that BG's are more likely to choose target markets that are culturally proximate to reduce the perceived risk of a foreign entry by an inexperienced company. Though the literature seems to be divided on whether or not this is a proactive or reactive approach to reducing risk by inexperienced firms. The study by Freeman, Hutchings & Chetty (2012) investigated if cultural proximity, technological and international knowledge are more important to BGs than older firms and if the choice of culturally proximate markets is a proactive or reactive decision. Few studies focus on how BGs satisfy their knowledge gap about foreign markets at a pre-entry level. However, one method of reducing the knowledge gap is by choosing a culturally proximate market. It may be most important to initially enter a culturally proximate market, however, a prior study mentioned in the study found that once the internationalization process has started, the BGs continue to more culturally distant markets. Though the importance of culture may vary between specific industries, as not all industries have the same need for cultural proximity, for instance, the software industry, which may rely more on network connections as part of the internationalization process than similarities in culture and the software itself determines the rapid internationalization. The study suggested an absorptive capacity (recognition, adaptation and use of new knowledge) for internationalizing companies, with technological knowledge as a driver for proactive and risk-taking behaviour. Freeman , Hutchings & Chetty (2012) found that both older companies and BG managers thought a presence in a culturally proximate provided credibility for links into more culturally distant markets. The BG managers thought of it, as an advantage of "shared language culture" to provide a familiarity and easier market entry. The study found it important to be able to recruit locally and having access large familiar market. The BGs in the study also put an emphasis on the need for a good market, in order to face the risks with innovative products. Minimizing risk by moving to markets with similarities to your own is quite logical when considering risk reduction in the early stages of internationalization. Therefore it is more likely that BGs proactively seek out culturally proximate markets, to make up for lack of international experience, and that BGs rely on technological knowledge instead of international experience. (Freeman , Hutchings & Chetty (2012).

From the perspective of Autio, Pathak & Wennberg (2013), the cultural background can prepare the entrepreneur for the initial challenges that might come when internationalization and are less likely to require a proximate culture market to succeed. Though sharing a cultural background might decrease the initial challenge of internationalization due to the entrepreneur knowing the same habits and cultural practices as the entry market. However, the type of risk that has to be overcome based on a cultural prepared perspective versus a proximate culture perspective is hard to discuss, as the studies were not considered from that point of view. However, both studies Autio, Pathak & Wennberg (2013), Freeman, Hutchings & Chetty (2012) can both be described as studies that explain how an entrepreneur may start off a venture with a sense for risk-taking and initiative to go abroad. The exact risks faced by these entrepreneurs are not described in the literature.

Efrat & Shoham (2013) studied how which decisions pre-entry lead up to the BG's entry mode how the interaction between country and market factors and the BG's strategic orientation affects the BG's choice of entry mode. One of the factors behind BG's early and rapid internationalization is their location within a dynamic environment, in which their EO urge them to confront the higher levels of risk and uncertainties, and to deviate from the tradtional model of internationalization and expand rapidly. The choice of entry mode is a crucial part of international operations and BG's are often cited as having limited resources and a limited time window in order to seize international opportunities. Therefore the choice of entry mode is directly linked to the BG's performance and survival. Prior research has used BG internal characteristics such as age, size and capabilities to measure the factors behind the choice of entry mode. The study's authors explores the interaction between the BG's strategic orientation and external (country/market) factors that are represented by the choice of commitment through entry mode. Entry modes fall into categories between low vs high commitment, and fall into three types of entry mode: export, contractual and equity. Firms should choose their entry mode based on the level of commitment they are willing to make and on their assesment of external risk. The choice of entry mode is a complex decision and should be based on internal and external factors and it is crucial for the BG's international performance and survivability. The above two articles have already shown us that different cultural backgrounds can help with external risk by proximate culture or a background culture that initially prepares the entrepreneur to go abroad.  Prior studies have discussed the choice of entry mode as an outcome based on assumptions of financial and knowledge contraints along with firm and product characteristics, instead of calculated risk analysis and strategic planning. The results of these assumptions mean that the specific internal factors that influence the choice of entry mode is partly unclear. External environmental factors have a heavy influence on BG's international operations and is crucial to identify as they form the BG's environment. Firms environment are comprised of two risk types, market-level risk and country-level risk. Market-level risk consist of two main conditions which can influence international operations, namely market potential and competition intensity. Both of these factors are significant when juding the market 's attractiveness. Country-level risk consist of the political, economic and cultural environment in the market. The first two factors are measures through a stable/instable measurement and the final factor on the distance between the home and target country. The percieved risk factor may incline firms to pursue a lower-commitment entry mode due to instability in the target country market. The study found that BG's will choose a high commitment entry mode in an economic stable or large market. High commitment involve a greater amount of risk, but also benefit the firm by establishing a foothold in attractive markets. BG's favor higher gain to risk when choosing a high-commitment entry mode. Managers should identify potential risks before choosing a suitable entry mode,  and its crucial for the BG to pick the right entry mode as it is an important tool in overcoming target-market risks and compensate for lack of resources. Despite the higher risk, most BG's in the study seemed encourage to choose a high commitment entry mode.

For instance, this could mean a Belgian high-tech INV would initially choose to intenrationalize to Germany due to the markets proximity, both cultural and market size might benefit a Belgian firm. The cultural background in Belgium might also have prepared the entrepreneur to go abroad faster and face higher risks. With a foothold in a central european market, the network connections could potentially be limitless and provide a firm with a deep european background access to all over the world. Building upon network connections the small firm could suddenly find opportunities in China or the middle east, which is culturally nothing like central europe. However, the above studies teaches us that if the market is attractive enough, the BG's might choose to enter it, despite its lack of cultural proximity, of course, the firm might choose a low-commitment entry to minimize risks, untill the firm gains a better understanding of the local culture. A specific cultural background does not prepare anyone to manage risk, but it is rather the tendecy to go abroad that changes with culture. Culture can prevent some entrepreneurs from going abroad and instead choose to remain in their domestic market. Culture is therefore also an important factor when considering risk perception and it teaches us that its not just the entrepreneurial orientation that considers risk-taking as a factor, but culture can influence the amount of risk-taking an entrepreneur is willing to accept. However, the theory of cultural practices does not teach us how specific types of risk is managed, but rather how exposed the entrepreneur might be to risk due to their background and that different cultural backgrounds breeds different types of entrepreneurs, which in turn gives them a different method of dealing with risk.

## 3.3 Strategic Orientation:

Strategic orientation (SO) encompasses more aspect than the above-mentioned EO, for instance, the dimension of technology orientation in SO also includes aspects of EO.

Deshpande´, et al. (2013) Studied which strategic orientation would be the most viable for entrepreneurial firms, especially if the founders are able balance between market/customer, technology or cost-minimization orientation. There is a large body of literature on strategic orientation and business performance, however, not many of these studies are directed at entrepreneurial firms and rarely in cross-nation context. Using Japanese and American entrepreneurial firms as a base, the authors tested the impact of strategic orientation. A customer orientation is defined as the ability to understand the customer and put the customer first. A central component in customer orientation is market orientation, which is linked to entrepreneurial firms. The link between customer orientation and entrepreneurship is described as a shared commonality in terms of handling uncertain business environment. The technology orientation encourages risk-taking, innovativeness and a proactive nature, which are previously mentioned as key components in entrepreneurship orientation. Entrepreneurial firms are often seen as innovative, taking risks, with limited amount of resources, and therefore require a certain proactiveness in order to survive, and founders are likely to adopt a customer/market and technology orientation. A strategic orientation has three dimensions; each has its own merits and ability to enable the firm to gain a superior business performance. However, the study revealed that only a customer/market orientation had a positive impact on entrepreneurial firm, and surprisingly a technology orientation had a negative impact on the profitability of the firm. They found that a customer orientation is positively related to profitability in both regions (Japan & US) and technology orientation is negatively related to the profitability, while cost-orientation had no impact in either region. This finding is in line with the view that entrepreneurial firms should not become so focused on their newest innovative product that they forget which customer they target. Profitability in entrepreneurial firms comes from a focus on customers, finding a niche market or by differentiating. Having the technology to gain profitability is not the same as being profitable, and this study taught us that having a focus on the customer/market helps overall survivability and growth, and it is less important to have the most innovative technology if there is no focus on who to sell it to. The study by Deshpané, et al. (2013) can be seen from the perspective, that by shaping the product to the customer and markets available by segmenting to an already existing customer base, whereas a pure technology orientation might create the most state-of-the-art product and then look for a customer base to direct it at. The mentality of "Satisfy a customer need" seems less riskier than the mentality of "build it, and they will buy it". Interestingly enough, the above review of EO describes a high focus on risk-taking, innovation and proactiveness as important, which Deshpandé, et al. (2013) describes as less important than a market focus. It could therefore be suggested that having a high EO and a high focus on the market/customer would be a strategy for growth, as having a high EO is often linked to INV's success and a customer orientation is found to be the most profitable by (Deshpande´, Grinstein, Kim, & Ofek, 2013). This suggestion is backed up by Boso, Cadogan & Story (2013)'s study of market orientation and EO as performance drivers.

There are more to INV's/BG's success than just having a checklist of "Do's" and "Don'ts" that if you do them, you instantly achieve profitability. However, nothing is set in stone, the next study will further elaborate on why some managers are more likely to be oriented toward the market. Odorici & Presutti (2013) studied how different levels of experience influence the strategic orientation of novice and habitual entrepreneurs and their BG start-ups. International entrepreneurship theory propose that the BG's are strongly influenced by the entrepreneur that initiate them and it is the entrepreneur's strategic orientation that may explain how BGs achieve performance and growth. Though few prior studies has examined the effect of strategic orientation and BG start-ups. The authors used various levels of entrepreneurial experience, measured by prior business ownership, to measure the degree of strategic orientation. Using Italian internet-based BGs Odorici & Presutti (2013) identified both novice and habitual entrepreneurs to compare multiple dimensions of strategic orientation, including learning, market and entrepreneurial orientation. Studies of rapid internationalization cite entrepreneurial orientation as critical and a prerequisite to becoming a BG. Business management is naturally associated with risks, though BG managers are perceived as accepting greater levels of risks. BG's should have a learning orientation by seeking new knowledge about market customer, which influences which dynamic capabilities are developed and which type of specific skills and knowledge are required for the learning process development. The market orientations are usually perceived from a organizational cultural perspective, with a focus on the building the most efficient organizational culture (Not country-level culture) to satisfy the customers. International entrepreneurship theory does not agree on what is the most influential factor for BG's success, though different levels of entrepreneurial experience does manifests itself in various degrees in the BGs strategic orientation, and entrepreneurial experience is found to be significant. The study found that novice and habitual entrepreneurs differ in innovativeness and risk-taking dimensions, but are similar in proactiveness and all BG's should exhibit strong EO during their international operations. Novice entrepreneurs look at their Innovativeness as their business model, and their innovative technology as a sufficient condition to provide value for their customers. Habitual entrepreneurs instead look at technology as a facilitating factor for their global business idea, but not a sufficient condition for successful competition in foreign markets. It is more important that the customer and their needs come first, and the technology service the customer, not the other way around, with the customer following the entrepreneur. Which is in contrast to the novice entrepreneurs in the study that considered technology products after the old saying, "build it, and they will come". To clarify, the interviewed novice entrepreneurs did not consider the market to be changing, only the technology should technically evolve and the customers would follow it. Novice entrepreneurs focussed mostly at innovation, the habitual entrepreneurs considered a more balance approach with market/product innovativeness. In regards to risk-taking, the novice entrepreneurs are more careful and less likely to pursue risky opportunities, however, they tried to have a lower risk-profile and looked for safer alternative internationalization paths, their lack of foreign market knowledge made them take more risks, due to a less developed strategic plan for a profitable and sustained market growth.  The novice entrepreneurs expressed a preference for avoiding risky decisions, but in practice often took and accepted a lot of risks, though they did this in an unconscious way. In contrasts to the novice entrepreneurs, the habitual entrepreneurs took a lot more risk, but through conscious decisions believed that they could manage it by developing accurate managerial plans for growth. Risk was considered a natural and implicit characteristic of foreign operations and the habitual entrepreneurs looked for the best way to manage it. In the conclusion of the study, it is noted that habitual entrepreneurs are more likely to have a less gradual approach to internationalization and may also be more active in exploiting global market opportunities. The number of foreign activities suggests that habitual entrepreneurs achieve a better international performance.

Experience entrepreneurs seems to be more aligned with market needs and tend to build towards what the customer demands, furthermore it seems that experienced entrepreneurs are also more likely to choose a rapid internationalization path as their accumulated experience prepares them for the risks they may face in foreign markets. There seems to be a consensus in the literature reviewed so far, that the background of the entrepreneur plays a huge role in the success of the INV, whether it be previous experience or culture, many aspects of the entrepreneurs background prepares for foreign expansion.

## 3.4 Resource-based view:

RBV is widely used in the literature; in this thesis some authors have already used it with other theories like EO. The essential of RBV is keeping track of resources, including knowledge in either tangible or intangible form. To keep the company stable, the resources and capabilities has to stay with the firm, and avoid any type of spill over that might be used by competitors.

Cunningham , Loane & Ibbotson (2012) Studied young game developing firms from Poland and Hungary, with a focus on the RBV and knowledge based view (KBV) and how the entrepreneurs with no prior experience could jump into commercial operations with limited resources. Key decision makers are often the driver behind the firm's international orientation and their proactive innovative risk-taking behaviour is often influenced by prior experience from having experienced international travel, access to global networks or foreign language capabilities. Companies are viewed as a bundle of resources with assets that are constantly created, developed, renewed and improved. Small firms may be affected by multiple influenced at the same time and the RBV presents a holistic view of the firm that shows decisions such as entry mode and product strategy is not a stand-alone decision, but based on a co-ordinated framework of resources and capabilities. Though, RBV does not explain how small firms acquire these resources. Prior literature looks at knowledge as the key resource for INVs, as these are mostly based in high-tech industries. The KBV adds a more dynamic view on RBV as it pays closer attention to how capabilities evolve and puts learning as a key-factor to achieve long-term competitive advantage and performance. The authors discussed in the study the influence of the entrepreneurial team on rapid internationalization, as they introduce capabilities such as networks, resources, knowledge and other tacit resource. Game developers with Internet distributions are less reliant on publishers, whereas console games are more dependent on the publisher's resources to distribute their games. Meaning, some game developers might face unexpected risk via their network partners/distribution channels, and have a slower internationalization process. However, this is only till the firm reaches critical size, then firms with the credibility, resources and knowledge are able to distribute to multiple markets. The games industry is prone to shortened product lifecycles and technology shocks, meaning it's a high cost/high risk industry, as it requires a high capital expenditure to start off and new technology may put the firm at a disadvantage during development stage. Often, these small firms are operating at the prenatal phase before formalizing incorporation; meaning the entrepreneur is actively developing the product prior to starting the firm, some game companies are started as a hobby.  The KBV is not without its limitations, and scholars have often focused on its renewing resources, routines, capabilities and core competencies. The success of the firm is often cited as dependant on the entrepreneurial team (ET), where it is the combined knowledge and experience of the ET that leads to success in foreign markets. INV's success may rely on the ET's tacit knowledge, but the risk in high-tech industries, such as the game industry, may not vary depending on the ET's tacit knowledge, but whether or not any firm knowledge suffers from spill- over to a competitor, which may then gain an advantage. Tacit knowledge should be guarded closely, as it may be experience and routines that help the firm succeed. However, the internal resources are just as vulnerable, and unlike tacit knowledge, tangible knowledge can easily be transferred out of the company's reach. The study does teach us that entry mode is connected with resources and capabilities and the ET is a huge part of rapid internationalization as their network and capabilities may be a large part of the intangible knowledge. Furthermore, the game industry or high-tech industry is a place where knowledge and capabilities grow in unpredictable environment and the manipulation of knowledge may be seen a critical dynamic capability.

The above study teaches us that the ET is essential to the firm, due to the intangible knowledge they bring, but also that knowledge as a key resource needs to grow and be renewed in order to keep up with competition. In high-tech industries, companies are prone to technology-shocks and it's important the firm's capabilities and knowledge evolve over time to remain competitive. With limited life cycles, the game industry is seen as a high cost/high risk type of venture, and successful firms should guard their knowledge. Notwithstanding this articles discussion on how vulnerable knowledge is and how capabilities should be dynamic, it does provide more knowledge about risk-taking behaviour than previously discussed EO studies.

## 3.5 Marketing capabilities: Resource based view

The RBV can be applied in a wide range of ways by scholars, as we learned above, capabilities are an important factor to RBV, as it's a central resource and developing, expanding and renewing resources are a main part of the RBV. Ripolles & Blesa (2012) investigated how marketing capabilities contributed to international expansion of international new ventures and how these capabilities help INVs choose higher resource commitment entry modes. Rapid internationalization is not enough; it must be supported by the entry mode strategy. Higher resource commitment entry modes are more risky and marketing capabilities is a key factor in choosing the entry mode. Logically it is assumed that INVs would choose low commitment entry modes to overcome resource limitations and foreign market risk. A higher commitment entry mode does not seem to be a realistic approach in the early stages of internationalization.  Greater knowledge of the foreign market could be a factor when choosing a higher resource commitment entry mode such as joint venture, partial or total acquisition or Greenfield investment. According to the RBV, an INV will choose a higher commitment entry mode when their capabilities cannot be transferred and the INV has to choose an internal transfer to preserve the value of their capabilities. Thus, INVs are more likely to choose entry modes that provide them with higher control when transferring tacit knowledge capabilities. Prior research has stated that whollyowned subsidiaries will be more efficient in transferring marketing knowledge than other organizational arrangements. Higher commitment also contributes more learning than lower commitment entry modes, as INVs that has little to no contact with their market has to gather information through middlemen, whereas an INV with a direct presence in the market can gather unfiltered knowledge. The RBV would consider the marketing capabilities as a factor that can influence the entry mode, however the challenge for the firm is to identify the marketing capabilities that can lead to higher performance. The study found that marketing capabilities positively influence the choice of higher commitment entry modes and also lead to a higher international performance. Thus, INVs should focus on developing marketing capabilities, especially those associated with market information and knowledge, as well as how to use this information and knowledge in future activities. Overall, this should decrease the risk of a new venture and increase the performance of the firm. INVs with a product that require a high level of tacit knowledge might be at risk of obsolete technology assets or other forms of tacit knowledge becoming obsolete, and by increasing learning to develop new product the firm may reduce this risk. Like previously mentioned, INVs with a high commitment entry mode in a network partner or joint venture might be at risk of knowledge spill over, where even tacit knowledge could be transferred to a competitor. Such risk factors should be considered, but should not discourage INVs from early internationalization.

The study by Ripolles & Blesa (2012) shows once again a focus on the market, though interestingly enough, they argue an increased presence in a market and committing even more resources to the market. A prerequisite for a high commitment entry mode is market knowledge and if essential tacit knowledge is required but cannot be transferred to the new market, unless a high commitment mode is chosen (IE. Joint-Venture). To lower the risk of choosing a high commitment mode it is therefore argued that marketing capabilities should be developed and maintained, and how the market knowledge should be used in the future. Both the study by Cunningham , Loane & Ibbotson (2012) and (ipolles & Blesa (2012) focused on developing knowledge and capabilities, though Ripolles & Blesa (2012) argued the entrepreneurial team would be in possession of the tacit knowledge that would drive the firm forward. Both studies are however discussing how developing and maintaining capabilities are essential for firm’s survival and how knowledge spill-over is important to avoid. The RBV seems to focus on minimizing risks by keeping all resources (financial, knowledge, assets) inside the firm's control. Though, a critique of the RBV would be that it only deals with resources inside and outside in the environment, some of which may be gained, others may be in their competitors.  RBV in a sense can be viewed the same was as the effectuation theory described earlier by Gabrielsson & Gabrielsson (2013), as its involves "working with what you've got", and decisions based on the firms internal resources should include not risking more than can be afforded. RBV and effectuation theory in this regard is a type of risk management, but they have not explained how handle cultural differences, though Ripolles & Blesa (2012) did put a lot of emphasis on the market, which alleviate some risks.  In the study by Cunningham , Loane & Ibbotson (2012) the authors stated that the RBV does not explain how the INVs gain their resources. The RBV is a good theory to manage resources, which are important and can alleviate some risks, but it is not a complete way to manage all risks involves when going abroad.

The reviewed studies in this thesis so far, has had a tendency toward the market, however, foreign markets are not the same quantifiable substance that every firm can get a piece of, they change in culture, competitors, governance structure, growth opportunities, resources availability and financial stability among others. It is therefore also important for the firm to know its conditions in its domestic market and the conditions in the foreign market. Yamakawa, et al. (2013) Concentrated their study on new ventures from emerging economics (EE) internationalizing toward developed economies (DE). These two classifications of markets are very different in regards to internationalization, both internationalizing to the markets and internationalizing away from the market poses different set of challenges that needs to be overcome. New ventures from EE markets internationalize to both EE and DE markets and the study examined why some new ventures choose DE markets, which are potentially rewarding but also fraught with risk, and why others choose EE markets. Prior studies have often taken the point of view of new ventures going into EE markets, but less focus has been on EE new ventures going to DE markets. EE new ventures are proposed as internationalizing with two opportunities in mind, to enhance their reputation and to leverage prior knowledge stock and gain new knowledge. Their study focused on resource and capabilities with a control over reputation and knowledge as intangible resources and these are the reasons behind EE new ventures desire to internationalize. New ventures from EE markets lack the critical resources and are therefore using intangible resources when they internationalize to overcome the competitive disadvantages.  Reputation, as an intangible resource is best understood as the stakeholder's belief that the firm can deliver long-term value, which means, its reputation should be built on accomplishments, behaviours and signals and sustained through the firms promise to its stakeholders and the firms reputation is only as good as its perceived by its stakeholders. For an EE new venture, the internationalization into a DE market promises access to a larger market, more valuable knowledge and stronger reputation benefits, although the risk are often perceived to be the same as entering another EE market. However, a DE market offers lower corruption levels and lower chance of expropriation, which means ventures may be at a lower risk level when entering a DE market. New ventures are exposed to greater learning opportunities and more advanced technology in DE markets than EE markets and by internationalizing to a DE market the new ventures are seeking new sources of knowledge flows. The study found that firms that lack a solid domestic reputation were more likely to go abroad to DE markets and the firms with founders that received an education abroad were also more likely to enter a DE market. In fact, the more years the founder spent abroad, the more likely it is that the firm will enter a DE. Therefore, it is suggested as a strong predictor that international knowledge can make a firm enter a DE over an EE. The study also found that CEO's with a financial or managerial background are more likely to enter an EE than a CEO with a technological background.  Proprietary technology at start-up is therefore suggested as a predictor that the firm will enter an EE over a DE, unless the CEO is of a technological background. The results are a bit confusing, and proprietary technology tells a different story than the background of the CEO, however, there was found significant that the background of the CEO can predict where the firm will internationalize and technological educated CEO's are more likely to choose a DE. The study found support for its proposition that the firm's intangible resources affect the decision to enter a DE or an EE. A firm with a good domestic reputation and proprietary technology at start-up choose to enter an EE, whereas firms with founders/CEOs who studied or worked abroad choose to enter DE. A firm's domestic reputation strongly influences its decision to enter EE or DE. The study concludes that internationalization from EE to DE can be risky and challenging, but can also reward new or enhance current intangible resources.

A critique of Yamakawa, et al. (2013) would be that the risk mentioned in the study is not identified nor are there any indication on how a new venture gains their capabilities. When considering a new venture from an EE market internationalizing to a DE market, what should be considered by the new venture? Is the venture affordable? The EE is not rich in developed resources, and as such, a new start-up would arguably have less financial resources and less access to knowledge, unless the founder brought all knowledge with him necessary for the start-up to succeed, which prior studies have argued to be the case with many start-ups. When considering financial risk to the new venture, one has to also consider the entry mode, whether or not the product can be exported, if the entry mode provides an acceptable return of financial value, but also other intangible resources, such as reputation. The study by Yamakawa, et al. (2013) raises a set of questions on how risk is dealt with by new ventures and how or if the challenges changes, depending on the market that's being internationalized away from.

## 3.6 Opportunity-based view:

Chandra, Styles & Wilkinson (2012) Used an opportunity-based view on rapid internationalization, by investigating born global firms. Due to the different characterizations of BGs, the authors investigated small firms with a rapid internationalization path. The authors assumed the opportunity-based view and focused on small firms behavioural process of seeking opportunities for exploitation across national borders. To the authors thinking, rapid internationalization is not as rapid as it seems, not when using an opportunity-based view, and regardless of rapid or gradual internationalization, the path-dependent process lies in opportunity development. Basis for this line of thinking lies in previous studies and how few of them do not take the founding of the firm into consideration and only deals with the internationalization path of the firms. The study by Chandra, styles and Wilkinson (2012) revealed that the characteristics of BGs depends on the specific context in which they operate, meaning the business environment the born global finds it self in, including network relationships and prior knowledge provides the building blocks that determines the nature of the internationalization process. Prior studies have also confirmed that BG carries prior experience, networks, opportunities, relationships and knowledge into their current venture and thus achieve a born global internationalization path. Similar to other studies in this thesis, the amounts of risk considered by the authors are limited to the different types of risk and commitment of the entry mode chosen by the firms. The study by Chandra, Styles & Wilkinson (2012) showed increased commitment and interest in foreign markets also increases the amount of risk and exposure. This has been confirmed by prior studies, as high commitment entry modes exposes INVs to more risks, simply because having a subsidiary or joint venture provides a larger presence in the foreign market and are financially a bigger investment than an export route and are thus a bigger financial loss. Other things are also more available through an increased presence in the market, INVs are also exposed to new knowledge and capabilities, have more control over their presence in the market, and might be able to establish network connections and find new opportunity through partners. However, we can take from this study that INVs should consider a higher commitment mode to increase their presence in the market and thus be exposed to more opportunities, however, also with a chance of increased risk and loss.

## 3.7 Organizational Capabilities: Performance drivers

Most studies reviewed so far has discusses on some sort of risk, and argued higher performance as a secondary objective. However, Efrat & Shoham (2012) differentiated between short-term and long-term performance drivers in their study of 107 Israeli BGs. By internationalizing rapidly, less market knowledge is accumulated and higher risk are involved in their operations. BGs would experience increased uncertainty in the foreign target market and have a limited amount accumulated experience and resources needed for the internationalization, however that is just some of the risks BGs have to confront. The study by Efrat & Shoham seeks to explain how internal and external factors can affect the short-term and long-term performance by using the Organizational Capabilities (OC) paradigm. Similar to the RBV, the OC paradigm recognizes the firm's central capabilities as a way for creating a competitive advantage. Even though BGs tend to spread to several countries during the early years, the first market can have a huge impact on the strategic performance of the firm.  According to Efrat & Shoham (2012), the strategic outcome of the initial international operation had an impact on the BGs short-term international performance. As the business reaches post-entry period, the success of the early internationalization affects the mid- to long-term performance. The target market factors have environmental drivers for performance as well as risk and uncertainty. Environmental factors that could impact a business's performance could be the country's political, economics and social environment.  The study by Efrat & Shoham (2012) found support for the relationship between the dynamics of the firm's environment and the adaptability of their capabilities. The short-term strategic performance was influenced by external factors market growth, technological turbulence, and target-country-risk, and long-term it was the BGs capabilities that became crucial for survival. Efrat & Shoham (2012) hypothesized that country-risk would have a negative impact on the strategic performance, and their study supported this, as they found BGs are more vulnerable in unfavourable country conditions. This stresses the need for companies to identify the influencing external factors before entering a foreign market and having the organizational knowledge to handle the negative influence in order to be less vulnerable, especially pre-market-entry. Only internal factors that were found to have a short-term impact were market knowledge. The findings of Efrat and Shoham's study focused on short- and long-term performance and which factors may have a negative effect on this, IE. Risk. Their study concluded that BG managers should develop a better understanding of every target market in order to reduce risk. The developed knowledge and understanding of the target markets should be used to create risk-profiles, which should be used to pro-actively reduce risk and thus improve performance. The authors noted that market knowledge's effect on BGs performance and its importance diminishes over time due to increased accumulation of this knowledge, more markets with similar characteristics can be served without the same time-consuming research.

Interestingly enough, the study by Efrat and Shoham (2012) differs from the other RBV studies by also focusing on performance and discussing the outside environment, where firms are actively encourage to focus on market factors to reduce risk and increase performance. There is no doubt in the literature that performance in the early life of INVs is very important, and Li, Qian & Qian (2012) Studied how BGs in technology-intensive industries perform during their early internationalization period. Following the traditional literature on the subject, the BG are exposed to greater risks with their limited resources, as well other challenges posed by economic, political, legal and cultural dimensions in the target market, which may differ completely from the domestic market.  Firm internationalizing have to protect their assets (IE. Intangible Knowledge) at a low cost, and the firm might struggle to gain an advantage over larger firms in tangible resources. Much of the BGs success is often contributed to the founder's characteristics, ability to discover new technologies and tendency to take risks. BGs can have organizational advantages over multinational firms, by having a simple organizational structure with direct communications between managers and bottom-line employees to create radical innovations, as well as increased flexibility to create more risk-taking strategies, which significant impacts the early internationalization. Pioneers in their field, usually benefits from first mover advantage, and thus have better opportunities to internationalize their innovations, as host country governments usually desire new technology and lowers entry barriers to get this. This also means that competitor followers may be at a disadvantage in the same markets, as the market already has the new technology from the pioneer firm. In order to manage risk and uncertainty, small technology-based firms have to have a wide range of foreign market activity, though being small can be a doubled edged sword, it limits the resources but in turn increases flexible. The authors proposed that international experience and early internationalization is an inverted U-shape, meaning that during the early stages of internationalization the knowledge of competitors and markets are limited, but will slowly increase to a certain point and then start to fall off again. Inexperienced managers are more likely to take unknown risks while chasing international opportunities in foreign markets.  However, among inexperienced new ventures, the less experience the manager have, the higher the tendency to internationalize early, whereas more experienced and knowledgably managers are better at perceiving risks and are thus more hesitant at attempting a foreign market penetration. The findings of the study confirmed the inverted U-shaped relationship between firm size and international experience in early internationalization. There were also found a positive and significant relation to performance for firms that internationalize early, which confirms that early internationalization provides important benefits, which surpass costs. Though it should be noted that early internationalization exposes firms to high costs and high risks, but as it was found that early internationalization also improves performance, which means that if managed correctly, the high costs and risks are worthwhile. Small size and limited resources doesn’t have to hinder a firm, though to maximize performance, especially in the early internationalization stage, firms should invest heavily In R&D.  Firms should thus focus on reducing risks and increasing performances by knowing influencing market factors and developing new technologies to stay ahead of competition.

The capabilities of the firm are an important and wide studied subject, but it is only among the many factors that can influence firm performance. Fernhaber (2013) studied how the relationship between INV’s internationalization and performance are connected through a dynamic capabilities perspective. Arguing that internationalization requires a reconfiguration of capabilities and routines with survivability peaking during the time of internationalization where the associated resources and risk are balanced between the local and foreign markets. The additional risk and cost of internationalisation is mostly attributed to liability of foreignness, and it is important to understand if the internationalization process and firm performance has a positive or negative relationship, or if there is no impact at all. Internationalization and dynamic capabilities develop alongside each other, and prior research has argued that the pursuit of international markets early by INV's coincide with the development of key dynamic capabilities and thus have a significant effect on the INV's ability to survive. Advancements in technology and a growing demand for more diverse products is serviced by technology allows INV's to specialize and customize products to a global niche market and compete with large multinational corporations. A unique product can encourage an INV to internationalize to capitalize on its own innovation before competitors replicate it. The survival of an INV is influenced by both the capability development and the degree in which the benefits are attained.  The study found a strong support for internationalization and performance for survival and growth. At lower-levels of internationalization, it was found that the chances of survival are increased, but the INVs were unable to reach high sales growths. Whereas high internationalization increases sales growth, but the firms also faced greater risks. Internationalization had a positive impact on INVs survival up to a point of 45% sales coming from international markets. Meaning that the firms with a total amount of international sales up to and not exceeding 45% of their total sales had better chances for survival and were more likely to have increased sales growth. Firms with a higher percentage than 45% of international sales performed overall less in sales growth and were thus, less likely to survive as long.

The amount of international sales and level performance growth is intertwined, and this study suggest that there is a cap for too much international sales before performance starts to decline. This suggests that international risk can be managed by having the majority of sales in the domestic market, at least in theory and in the early stages of internationalization. At some point it is conceivable that international sales are too lucrative to keep a focus on the domestic market and will exceed the 45% cap that Fernhaber (2013) found, and at this later point in time, the declined sales growth and performance might acceptable. Also, as suggested by Efrat & Shoham (2012) the accumulated knowledge about foreign markets makes it safer to internationalize over time.

## 3.8 Governance structure:

Aspelund & Moen (2012) studied how BGs overcome their resource limitations by using entrepreneurial hybrid structures to govern their international activities. A hybrid governance structure could be a joint venture with a foreign partner; basically a hybrid governance structure means two or more organizations are blended together.

BGs usually target a narrow customer segment in a wide geographical area and prior studies have concluded that the success of BGs is largely due to their governance structure. BGs often rely on complementary resources from other firms in their distribution channels. Having a partner, joint venture or close relationship can benefit the firm, but a hybrid structure can also be risky if the power balance is skewed. For a collaboration to succeed, the BG must build trust rapidly, as complementary competencies are commonly found through different partners. Prior research has established that BGs most often choose low commitment entry modes in order to minimize risk and overcome resource limitations. The study by Aspelund og Moen (2012) failed to find how different types of governance structures affect different types of firms and their international marketing activities. The sample was confirmed as typical for a Born Global sample, by using the standards already established by prior research. The study showed that over time, all firms end up with approximately the same governance structure, and prior research has shown that hybrid governance structure can be a potent solution in the early stages of firm establishment. It might even be a necessary solution in the early stages of internationalization, but too risky for any long-term international market management.  While having a partner or a joint venture have often been cited as helpful, and network connections as a crucial part of international expansion, its interesting that Aspelund & Moen (2012) failed to find any connection to how the governance structure affects international market expansion. It might beneficiary at the beginning of a venture to reduce cost and risks to have a partner or start a joint venture, but over time this benefit might not be advantageous, though when this critical point of independent governing structure happens has not been discussed, we only have Aspelund & Moen (2012)'s argumentation that all BG's are headed toward the same governance structure, regardless of how they began. Basically, this means that at some point, the business is ready to be independent and can manage its cost reduction, risks and find new opportunities by itself.

Fernhaber & Li (2013) studied how new ventures are internationally exposed through network relationships and how geographical proximate firms and alliance partners impacts the firm internationalization. As new ventures pursue internationalization they are exposed to liability of foreignness, however, network relationships can positively influence new ventures internationalization to help, even substitute for each other, by providing network connections, find new opportunities in foreign markets and share resources. There are three benefits of international exposure through network relationships described by Fernhaber & Li (2013). First, through the network connections, new opportunities are recognized and acted upon by entrepreneurs to expand internationally. This can reduce cost and diminish the risk in an unfamiliar foreign market. Secondly, networks might lead to the formation of an exchange relationship, where the new ventures can be provided with resources and legitimacy, this could lead to higher levels of international growth and performance. Finally, key information can be provided through the network connections about the international markets, such as resources needed to enter, competitors or customer segments in the market to enable to new venture to compete with local firms. When firms pool their resources and capabilities, they are able to accomplish tasks that would otherwise be more costly or more risky. The study found that international exposure through networking remains a key catalyst in internationalization. For new ventures, an alliance partner can be the difference between success and failure, due to the extra resources that might not have been available to a single venture. For instance, an alliance partner could bring economies of scale or provide key information about the local market. Thus, it is possible for new ventures to reduce cost and risk by using their network connections. Basic thoughts behind Fernhaber & Li (2013)'s study is that risk is managed by using network partners to identify new opportunities and find new partners in foreign markets that's interested in doing business. Which, is the same line of thought as the study by Gabrielsson & Gabrielsson (2013), both studies argue that the network connections should help with the risks, opportunities and reduce cost.

Freeman, Deligonul & Cavusgil (2013) studied how BG's use re-structuring as a strategy for going in and out of markets. Meaning that BG's internationalization process and strategy into to a foreign market include de-internationalization and re-internationalization. The study was conducted to see how the BG's managers use the de- and re-internationalization process strategically and how this pattern of internationalization is chosen. Withdrawal from a market can also be partial, for instance, keeping the domestic import business, but withdrawing from an export market. Also firms in multiple of markets can internationalize to a new foreign market, while de-internationalizing in another and re-entering a third market. The authors wanted a holistic view of the rapid internationalization process of BGs with a focus on the inward- and outward orientated activity. De-internationalization is the process of reducing the international exposure, and it can vary in degrees of reduction depending on the method of entry, IE. A subsidiary can still import, but stop exporting to the region, or the BG can completely withdraw from the region (Stop all international sales/services). This is an important theoretical view for this thesis, as de-internationalization and re-internationalization can reduce or increase the amount of risk-taking involved and to a degree some entrepreneurial skill of being proactive. As the international market shifts, the BGs shift its international activities to by re-structuring its international assets in order to sustain growth and survive.  It was found that in order to achieve this inward-outward activity, the BGs worked closely with its foreign supplies for new product development and modification. By focusing on having long-term relationships, the BGs moved away from the short-term predatory behaviour and instead had long-term strategic alliances with closer collaboration. The strategic re-structuring required a changing relationship from exporting to strategic alliances. Strategic re-structuring does not necessarily imply a lowering of commitment, IE. a switch from export to import (or visa versa), but it is viewed as a relational management to maintain foreign contacts. Strategic re-structuring enhances the firms relational capabilities and gradually expand the social and business contacts, thus the international experience and knowledge is increased. Strategic alliances allow BG's to enter and re-enter more rapidly than relying on export alone, thus the pace of internationalization is accelerated. Foreign business relationships are central to firm survival and a proactive decision by a BG to reduce sales to existing foreign customers are frequently not only about reducing firm costs, but also easing their customer's costs. This means an advantage is gained through relationship preservation and overall an increase in the firm relational capabilities. The strategic re-structuring allows for more flexibility to follow competitors and clients into foreign markets or react more quickly, utilizing first-movers advantage, or to re-connect with a previous market. The BG managers are able to develop new competencies by remaining in contact with international buyers and sellers through an on-going shift between the inward- and outward orientated activities.

What does this mean in terms of risk management? The continuous change between de-internationalization and re-internationalization has the potential to minimize the risks. As de-internationalization means the firm limits itself to a market, which may no longer be profitable or too high risk to be in. Although, not necessarily a complete withdrawal from the market, a de-internationalization does limit the exposure of the firm and once the market is deemed profitable again, the firm can re-internationalize to connect with previous contacts and through escalating network contacts, build new relationships which allows for quicker and easier access to new markets. Overall, the theory explains a new point of view on rapid internationalization and how BG's can manage their risky behaviour in a way that can limit the exposure before it hurts the company financially.

## 3.9 Discussion of literature review:

The literature review discussed several topics and theories, and some of the author's approaches were similar in nature. First and foremost, there does not seem to be sufficient amount of risk management theory utilized in the literature review to come to a definite conclusion to the research question. There seem to lack a relevant methodology for INVs to manage risk, meaning that the literature review has not uncovered a concrete pattern of how INV's/BG's manage risk.

However, I will present a discussion of the above literature review to clarify which theoretical components would best create an INV's general risk management, at least according to the authors of the studies in the literature review. This framework, which I have named **three steps to risk management** will sum up the most useful and important key points made by the authors in the literature review.

First step toward a general risk management framework based on the literature review has to be market focus. There seems to be consensus among the authors of Efrat & Shoham (2012)(2013), Boso, Cadogan & Story (2013), Deshpandé, et al. (2013), Odorici & Presutti (2013), Ripolles & Blesa (2012) and Cunningham , Loane & Ibbotson (2012) that firms should focus on the market to increase the firms ability to grow and survive.  Firms that accumulate market knowledge have increase growth due to better understanding of the customer needs, cultural pratices, market trends, competitors, resources available to absorb and overal better understanding on how to serve the market at minimum risk to the firm. Efrat & Shoham (2012) discussed risk profiles that can be applied to multiple markets and overtime, these profiles will help the firm with new markets without the need to accumulate a lot of new knowledge.  As the firm moves further and further away from its domestic market, the cultural practices and market needs will change with it. As such, a firm should be adaptive in its strategy and product, and gathering market knowledge will assist the company in launching its services, products or brand in the market. Therefore the first point in my general risk management framework is ”**Market Adaptability**”. The findings of Deshpané, et al. (2013) suggested the habital entrepreneurs engineered their products to the market/customer needs, and this line of thinking really captures the essence of the **market adaptaion** in the **three steps to risk management.**

Market adaptation is put first to ensure the growth and properity of the firm, knowing the market and serving the market need is the most agreed upon topic of the authors in the literature review, and adapting to the market also means that cultural differences will not come as a surprise to the firm.  It means reducing risk by ensuring growth and survivability. With an understanding of the market forces also means a higher commitment mode can safely be chosen and risk should be reduced through growth and understanding the market. Plus the firm should have a  higher performance.

To ensure the firm can handle the challenges of the new market, a network partner or more should be located to share the financial risk and open up the possilibity of finding new knowledge/resources and capabilities. Getting assistence in the early stages of internationalization is often cited as crucial to help INV’s move through market barriers and overcome challenges. The authors Gabrielsson & Gabrielsson (2013), Sepulveda & Gabrielsson (2013), Aspelund & Moen (2012), Fernhaber & Li (2013) all shared a theoretical framework that used network connections to help the firm with international exposure or as a help with resources and capabilities. Therefore, the second point of the **three steps to risk management** is **Network Partners**, to help the firm minimize risk by sharing financial risk and attempting to find new opportunities, gain reputation, find new resources, knowledge or capabilities needed for growth and survivability.

The final point is based on the re-structuring strategy suggested by Freeman , Deligonul & Cavusgil (2013), the third point is important, even though only a single study was reviewed that uses strategic restructuring as risk management, it is logically to add a safety net to a risk management framework. If the market changes, and it is not possible to adapt to it or it is getting harder to find network partners and the survival of the firm is at stake, then it is time to consider a strategic restructuring by de-internationalizing or re-structure the current company presence in the market. As such, the **three steps to risk management**, can be seen here.

1) Market Adaptability (Serve the right demographic with the right product in each market)
2) Network Partners (transfer risky part of business and import new resources/capabilities)
3) Re-structuring  (Evaluate if the market commitment should be increased or decreased (de-internationalization))

I created a model based on the 3 key points to risk management above; it can be viewed on the next page.

These 3 steps should be a continuous process, to avoid a rigid business structure and by following the model, the firm stays flexible by changing to the market/customer needs, and will always look for new opportunities to exploit and partners to make the firm stronger, and by continuously evaluating if a re-structuring is needed, the firm will avoid being caught by surprise should a crisis emerge.

The Risk management model can be seen here.

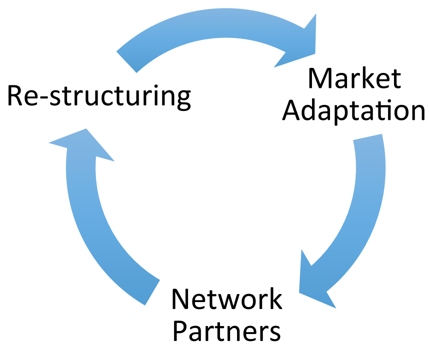


**Figure 1**

The above model is merely a summation of the most logical steps to avoid taking risks, based on the literature review in the thesis and should be understood like this. First, figure out what the market demands and adapt to it, choose the right commitment entry mode and customer need, then find network partners that can assist, then consider if the structure of the firm and its commitment is optimal for growth and survival and return to market adaptation (in case of market changes or new opportunities), and so on in a continuous spiral of evaluating the current and future situations.  The model (figure 1) was created to sum up the theories in a theoretical framework.

However, the result of literature review should not stand alone, and has to be compared to a risk management theoretical framework, along with a comparative analysis of how the literature review's risk management theories, and the model created from it, stands up to field-tested risk management.

Reviewing field-tested risk management theory will provide a deeper understanding of how risk affects the firm, and which types of risks are most impactful, and how to manage these risks. But, also what decisions can be made in different situations, not all problems have the same solution, and not all risks is dealt with the same way. Which is why the next chapter is important, since it provides insight into how risk is managed.

## 4. Risk management theory:

This section will contain a review of different types of risks as well as how to avoid these types of risk, followed by a discussion of the most relevant risk. Later in the thesis a more in-depth risk framework discussion will provide insights into the literature review's risk and risk management literature from this chapter. When examining the risk management literature, more depth is put into the concept of risk compared to the loosely used terms in the literature review. Which means that this section will consider dimensions and types of risk, probability of occurrence and severity (impact) of the risk. (Walker 2013)

The type of risk and probability of occurrence are important concepts in risk management, however, also the impact of the risk (severity) versus the gain of the opportunity are important aspects to consider when considering the risks of an undertaking. The type of risk indicates what can be lost, most would calculate this to be a financial loss, but an asset doesn't have to be defined by its value. The probability of occurrence defines how likely the event of uncertainty is to happen, certain businesses can draw on historical data, most studies deem export to be the safest form of internationalization, but even exporting goods has its risks. (Walker 2013)

A shipping business is likely to calculate the value the loss of a ship in a storm would cost them, but the probability of the loss would be low due to size of the ship and radar technology to navigate. Not only is the loss of a ship a great loss to the shipping business, but the cargo's value is also lost to its customers.

Which brings us to the impact of the risk that defines how devastating the loss would be to the firm. For instance, a single ship owner would lose his entire business if the ship sank; whereas a large shipping company with hundreds of vessels would better be able survive the financial loss of a single vessel. The severity of the risk event involves the loss or gain of the risk event, not all risk events are a total loss. For investors, not every investment is a gain, but not every failed investment is a total loss. Some investments allows for the possibility to withdraw from the investment and accept the losses before a total collapse happens. When the risk event does occur and a loss is imminent, the loss should be mitigated or managed to the best outcome. Not all risk events can be mitigated or managed, and if that fails, at least it should be understood, to make more efficient future investments possible. (Walker 2013)

For INV's with limited resources, a single trade can determine the future of the company, and therefore has to be selected with care. Not every opportunity is a golden ticket to financial security and the impact of the gain, as well as the risk should be considered before taking a chance on an opportunity.

## 4.1 Types of risks:

The dimensions of risk can be divided into types of either explicit risk or implicit risk with different scope and impact, and consist of finite risk or persistent risk. The four dimensions of risk is described here below and how they can be combined will be discussed later in the chapter. (Walker 2013)

**Explicit risk** is where a business decision or investment can be clearly linked to the risk being taken. Where it is clear that risk is involved and it does not come as a not a surprise or is hidden from the decision maker. The risk involved is not in any way more predictable or easier to deal with. (Walker 2013)

**Implicit risk** is when risk is accepted as being embedded in a broader business decision, where the risk itself is not obvious. The risk is often not previously known and can be based on a series of linkages. (Walker 2013)

For instance, buying and selling corn has the explicit risk of selecting the best corn and is valued after the market volatility. The buyer or seller can see how much risk is involved before committing to a delivery. The implicit risk of the corn delivery is if the weather delays the delivery or if the transportation is impacted in some way that ruins the corn. The latter is impossible to predict but is embedded in the business as a possible outcome of a delivery, whereas a corn merchant can keep track of the market and know the best times to buy and sell. Risk can exhibit itself in different types of impact, which the next two dimensions describe. (Walker 2013)

**Finite risk** does for the most part not exceed the known amount. The maximum loss is limited to a known amount, like an investment loan where the creditor cannot control more than the money lent and once the risk is manifested, the loss is finite and known to the loan's amount. Unfortunately, the probability of occurrence can be difficult to attain, but at least is finitely described. (Walker 2013)

**Persistent risks** pose a greater concern as it involves outcomes that continuously impacts over time. The cost of persistent risk is therefore not a one-time event, but can potentially grow and linger over time. For instance, brand reputation or oil drilling are both at persistent risk of loss due to events over the years. Oil drilling is persistently at risk of causing environmental damage, and may require funds to clean up oil spills. Brand reputation can be seen as a rollercoaster, and is persistently either on the way up or down. Persistent risk is often seen in risks involving liability. (Walker 2013)

## 4.2 Combinations of risks:

The four dimensions above can be combined differently, depending on the business decision. The most common combinations are.

**Absolute risk is** a finite and explicit type of risk and is recognized in most business decisions. Business decisions that carry absolute risk with it is measureable, quantifiable and limited in size. Market traded assets are typical examples of business decisions that carry finite and explicit risks with it, for instance, buying a bond and placing a gambling bet is the same type of explicit decision with a finite loss attached to it. A business that purchases an asset or buying inventory, the decision is explicitly accepted and finite in size. Not all decisions are finite in gains and losses and as mentioned above, not all business transactions carry an explicit risk. (Walker 2013)

**Embedded risk** is implicit risk with a finite or limited consequence. Take for example a partnership in a foreign market. Having a partnership is embedded with some risks that are measurable and quantifiable (explicit risk decision), but other risks are hard to measure, detect or even imagine (implicit risk). Risks that are outside the enterprise control are the most challenging to deal with. (Walker 2013)

**Industry/strategic risk** is explicit in nature due to the selection of and strategy to remain in the industry. Many industries carry its own industry risk, for example, the printed media is exposed to risk due to the digital media's technological advances and ability to be present everywhere. As technology changes the media industry, the participants are faced with risk to the entire enterprise and their ability to produce media in the future. The risk to the media industry is therefore persistent in nature, but explicit in the selection of the industry to be present in. (Walker 2013)

**Infinite risk** is persistent and implicit in nature as some risk may evolve over time and come to realization at a later date. For instance, the oil spill example above is persistent and implicit in nature. The danger of an environmental disaster is implicit due to being out of the enterprise control (non-selective risk), and persistent, since an oil spill is not a one-time risk event, but is instead looming in the background. (Walker 2013)

These categories describes the dimensions of risk, several types of risks to the firm are represented by these dimensions. The most common types of risks in these dimensions are: market risk, credit risk, operation risk, reputational risk and regulatory risk. Not all firms operate in sectors where these risk types exist, and as such, some industries are more prone to one type of risk than another. A list of common risk types is described below and will be further discussed later in the chapter. (Walker 2013)

Common risk types consist of the following.

- ***Regulatory Risk:*** *Changes in laws, tariffs, taxes, and other politically-driven policy that can alter the business operations and profitability of the enterprise.*
- ***Reputational Risk:*** *Impact of brand and corporate image of news, rumours, or stories. Generally, driven by business products, practices, or relationships.*
- ***Operational Risk:*** *Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.*
- ***Credit Risk:*** *Probability of not being paid on Accounts Receivable. For banks, this is generally a large function. It is a growing function as others implicitly issue credit.*
- ***Market Risk****: The risk posed by market conditions resulting in the pricing and evaluation of assets. Consider Real Estate and hard to sell assets (art and collectibles). Risks posed to the enterprise are often interrelated and can be also be strategic risks!*

*Quoted from source: R. Walker 2013*

The list above is not a complete, and some of the risks exist in the same risk dimension, it is just an overview of the most common risk types an enterprise faces in foreign markets.

Many enterprises are first and foremost facing market risk, as an explicit risk, due to the selective decision of internationalizing to that market. Which is advantageous due to the risk being tied directly to the investment and being known beforehand. Unlike market risk, the operational risk is embedded in the business and is of an implicit nature, as it is not known when the risk event to the operation occurs. In the same line of implicit dangers is regulatory and reputational risk, which can be unknown in origin. Especially exporters can suddenly find trade barriers due to new trade laws and regulations and need to find a way to avoid or mitigate the losses. (Walker 2013)

The dimensions and types of risk are summed up in the table below, along with examples of the types of risk to the firm. The table is compiled from R. Walker (2013) and puts a good perspective of how the dimensions and common risk types are integrated into each other.

| | **Explicit** | **Implicit** |
|---|---|---|
| **Finite**<br><br>(Risk impacts are felt over a short and definite period) | **Absolute Risk**<br>**(Market risk) (Credit Risk)**<br>Risk losses are understood and tied directly to the investment made.<br>Losses may be limited to the investment. | **Embedded Risk**<br>**(Operational Risk)**<br>Risk is embedded in the nature of the business operation.<br>Risk is not removable from business function. |
| **Example** | 1. Transactional, liquid assets<br>2. Risk maybe be sellable<br>3. Counterparty is identified<br>4. Investment is limited or defined | 1. Losses from operations<br>2. Hazard losses<br>3. Failure to execute<br>4. Supply chain losses |
| **Persistent**<br><br>(Risk impacts are felt over a long and protracted period) | **Strategic or Industry Risk**<br>**(Country Risk) (Technology risk)**<br>Risk losses are known.<br>Risks are driven less by investment but more by the overall health of the industry.<br>Risks are persistent and move with prevailing market forces. | **Infinite Risk**<br>**(Reputation Risk) (Regulatory risk)**<br>Risk losses are not only embedded in operations.<br>Risk is spread across business operations, impacting the firm in many unforeseen manners. |
| **Example** | 1. Investments in a brand and company<br>2. Business model<br>3. Risk posed by the market or industry of business<br>4. May be driven by economic or marketplace conditions | 1. Secondary impacts from operational risk<br>2. Inability to operate or execute from internal processes<br>3. Follow-on losses due to weakened position |

Table 1.0 — Source: adapted from R. Walker 2013 (Table 1.1 + 1.2 + figure 1.5)

Understanding the type of risk is important, and in order to be able to mitigate the risk or lower the exposure to risk it needs to be understood. Which is some of the concept behind risk management, most authors would agree that certain risks should not be taken, and learning when to avoid and when to mitigate risk can dramatically change the entire future of an enterprise. When firms expand to new markets and face uncertainty, they are generally faced with multiple challenges (entry mode, competitors, financial stability etc.) and would prefer to choose the path with known outcomes. It is critical to the firm survival that risk factors can be transformed or managed to reduce unfavourable outcomes. If a firm want to move from a implicit risk situation to an explicit risks, it must gain a better understanding of how the implicit risk is linked to the business decisions and work to separate the two. If the firm is suffering from persistent risk, it can limit the exposure of the assets and maybe transform the risk to a finite risk by altering how the assets are impacted. As the table above shows, absolute risk is the most desirable type of risk to firms; all the losses are known and understood as part of the business decision and limited to a finite event. A little more troubling is strategic or industry risk, losses are still known, but can occur multiple times, if the risk is not managed or mitigated to a finite event, it has the potential to cause severe and possibly irreversible financial losses to the firm. Implicit risk is far more severe than explicit risk due to being an unknown factor; the probability of occurrence and link to the business decision is unknown and thus unmanageable in its implicit form. Country and technology risks are examples of business decisions, where a business picks a specific country or use of a specific technology over another, and are thus explicit in nature, but persistent over a long period of time.  In the implicit column of the table, the least desirable risk of them all is infinite risk, as the link to the business is unknown and it can occur several times over a long period. Infinite risk can be composed of regulatory or reputational attacks on the firm. Certain types of changes to business laws or regulations can put a firm in the infinite risk category, depending on the industry and country or origin. The same can be said about the loss of good reputation, some companies never recover from a reputational loss and go bankrupt or end up being acquired. It should be noted that the behaviour of the firm may cause the business regulations to change, and should thus be managed accordingly. As a general rule, firms should always try to find the lesser of two evils. Meaning, that if the risk is persistent, it should try to limit the exposure to a finite event, and if the risk is implicit, it should try to understand how the risk is linked to the operation. (Walker 2013)

The next figure will shows risk reduction improvements moving across risk types.

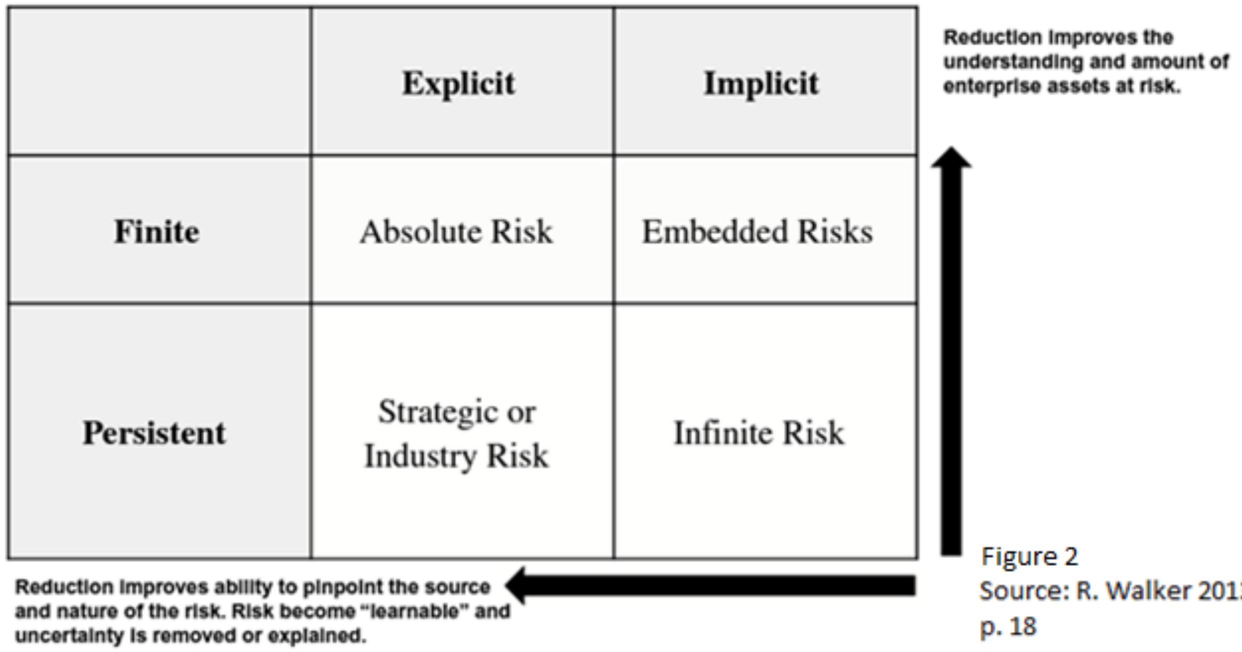


Figure 2
Source: R. Walker 2013 p. 18

The figure shows which direction the firms should try to transform their risk, if the firm is exposed to infinite risk, it should try to transform it to embedded risk or industry risk. While transforming the risk from the dimension of infinite risk to strategic or industry risk keeps the exposure to persistent occurrence, at least it would be explicit and thus known, meaning it can easier be avoided. The same can be said about moving along the implicit column from infinite risk to embedded risk would keep the exposure the in implicit column, at least the firm would move out of persistent exposure and to a finite event.  A firm can study the risk exposure, and find a solution that transforms it to a less exposed risk dimension. (Walker 2013)

Though as mentioned in the beginning of the chapter, the risk impact and probability of occurrence is also important. Which is also why I'll include a short framework of severity and frequency. The risk that leaves the firm most exposed is the types that is high in severity and high in frequency, and should be avoided at all time, whereas low frequency and low severity risk may not even be noticed. It depends on the type of risk that is involved. (Walker 2013)

**Low frequency and low severity. (LFLS)**
Low severity and low frequency risk is often not even acknowledged by the firm, but they can be a learning opportunity to the firm to enhance the operation. Perhaps the risk can even be shared

with a business partner that may have better capabilities to handle the investigation. (Walker 2013)

**High frequency and low severity. (HFLS)**

This type of risk happens often, yet are not material nor does it have to be critical, but another opportunity for learning and improving. However, the high frequency of this risk makes it a nuisance and inconvenience and should be investigated to ensure it doesn’t grow in severity. (Walker 2013)

**Low frequency and high severity. (LFHS)**

These types of risks don’t happen often enough to understand nor allow for a good prediction of occurrence, and as such, are often crippling to a firm. These types of risks are not easily transferred, with the exception of natural hazard risk, such as fire, and may be due to managerial decisions. For this reason, a firm should view the risk as an opportunity to invest, not to simply reduce the risk to the firm but to protect the profit function of the firm. Given the low frequency of this type of risk, it is possible most CEO’s won’t experience one, and several CEO’s over a long period of time (say 15 years), may disregard the LFHS risk due to the low probability, however, with the fate of the firm in peril, this approach is similar to gambling, and the firm may lose everything. (Walker 2013)

**High frequency and high severity. (HFHS)**

This is the most dangerous form of risk, and has the most potential to end the business. This type of risk should be avoided at all cost, the firm must be investigative, innovative and ingenious when first encountering this risk scenario to avoid this type of risk. (Walker 2013)

The figure on the next page shows how vulnerable the firm is to the different frequencies of occurrence and severity of the risk. This is done to present an overview of strategies to get out of these situation. Not all risks can be avoided, but as previously discussed, the firm might be able to mitigate the risk to a lesser risk dimension. (Walker 2013)

The figure also show the different strategies connected with the different impacts and severity dimensions and how the firms act to manage the risk.  How vulnerable the frequency and severity of the risk impact leaves the firm is also shown in this figure, which is very important when choosing if a strategy.

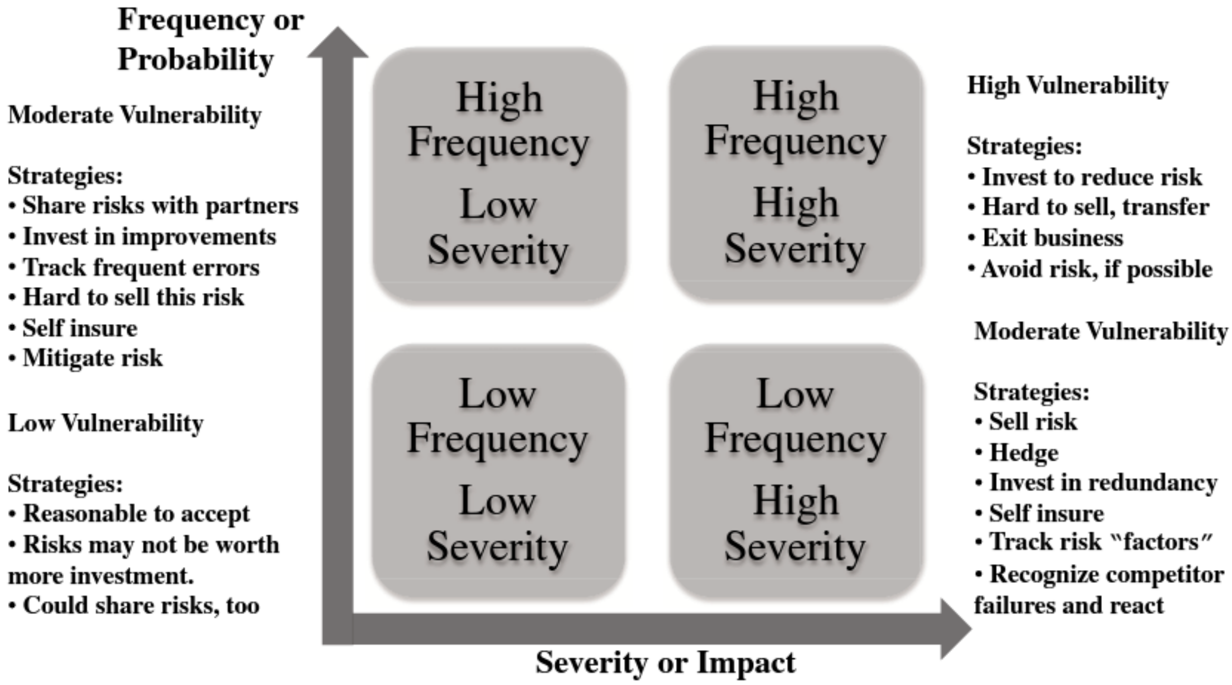


**Figure 2.2**

If we assume a firm starts an export business and as such are in the low vulnerability risk area, it means it prone to low frequency and low severity risk, since it does not exposure more than its current inventory. As the firm expands into new sectors and countries, the severity or the frequency of the risk increases, and firm has to take action and try to mitigate the risk or sell the risk off. Perhaps the firm opened a subsidiary in a favourable country, only to see regulatory changes that made the country unfavourable, as such, the subsidiary may not be worth having any more and should be shut down. The firm should try to sell, share, or invest risk to stay in the low vulnerability area of figure 2.2. (Walker 2013)

Once the risks has been identified, the firm needs to ask itself what it can do. There are several decisions that can be taken to known risk, it may seem attractive to avoid the risk or transfer it to another party, if the risk is within acceptable parameters it may be accepted without concern or mitigated to reduce severity. In all likelihood, a decision has to be made to reduce the negative impact on the firm. Once the risk is recognized as either embedded in the operations or inherit to the firm, it is usually accepted, and it is often tempting to dismiss the risk as part of doing business. (Walker 2013)

The risk management framework created by R. Walker 2013 encompasses 5 major decisions to avoid, transfer, mitigate, accept or exit the business. Before a decision can be made, there has to be an established link between management and the allocation of capital, meaning risk strategies must be aligned with those making capital allocating decisions, usually top management in the risk exposed firm. If a risk is left unattended it may lead to the risk spreading, this is called risk contagion, and means that economically driven risks are often linked. A Shock to the firm's resources may leave it further exposed and lead to more risk, which is could be implicit and/or persistent. As an example of this, think about a firm that has suffered a shock to its resources, leaving it in a resource-deprived state over a long period of time. During this period, it may experience operating or funding risks, which impacts the firm over time and might prolong the difficult and resource-deprived period of time. Thus, the key component in risk management is the management's ability to stop risk from spreading by responding to risk immediately. The five major decisions that management can make it shown in figure 2.3 on the next page. (Walker 2013)

**The 5 major risk decisions:**

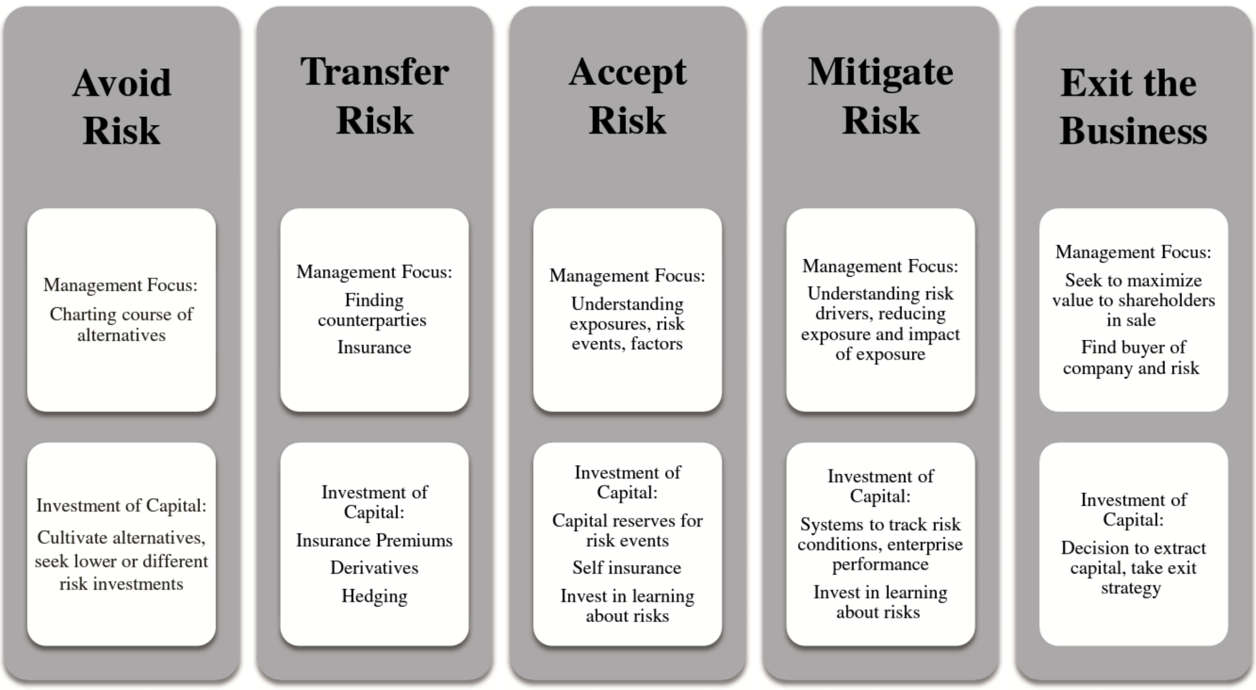

Figure 2.3 (R. Walker 2013)

The figure above shows the five major decisions, which have already been mentioned. First action should be to avoid the risk, this is done by looking for alternatives. Avoiding risk presumes the risk is explicit and therefor known. Next is transfer risk, which again indicates the risk is known and the option is to find a way to move the risk out of the firm, at least sharing the risk should be considered. Should the risk event occur, it is imperative to accept it and then focus on understanding the exposure. If the risk is implicit and therefore unknown, it's important to find the cause of the exposure, then focus on mitigating the risk and reducing the impact of exposure. And the final decision for managers is to exit the business. This is the last resort when the severity of the risk threatens the company's existence. The firm is exposed and in the high vulnerability area of figure 2.2, which means the managerial decisions are very limited, the risk should be avoided but if it cannot, the risk may be hard to mitigate or transfer, and should options fail, the manager may be left with the only option left, to exit the business.

## 4.3 Risk Management literature discussion:

The above chapter reveals several types of risk and provides a deep insight into the dangers an enterprise may face when internationalizing. In the Pre-entry internationalization phase, most enterprises would have to deal with explicit risk, as they search for opportunities and evaluate them in order to see the most profitable. Once the firm is established in the post-entry phase, it is more likely that implicit risk event occurs and has to be dealt with accordingly. Table 1.0 shows us that absolute risk is known and limited to a finite event, which should be the most preferred type of risk situation to be in, since the firm know it's a limited amount of frequency and impact. Though the impact and frequency may differ in size, absolute risk is not safe, but in comparison to other types of risk, it is preferred due to being known.

Of the five major management decisions (figurer 2.3) the last resort is exit the business, which means that if the CEO is considering that, none of the other options are available or likely to sufficiently minimizing the damage. Risk should be examined and determined if it happens often and the impact of the risk, even a small severity risk that occurs often can leave the firm at a moderate vulnerability level (figure 2.2) and the CEO then should consider one of the five major decisions on how to deal with the risk and which strategy would sufficiently bring the firm out of danger.

The chapter on risk management theory taught us that not all risk is obvious, and some risks are embedded in the operation and can be hard to avoid, however, they can be limited to a single event. The nature of the risk and the frequency of the risk tell us how vulnerable the firm is exposed. Combined these two with the five decisions of management, and the risk management framework shows a methodology for handling risky business. When a firm internationalizes, it has to evaluate the risk it may face, and continue to evaluate and investigate the risk factors. Once, the risk has been identified and the probability of occurrence is found. If firm knows of the risk beforehand, it can act accordingly by avoiding the risk, transfer the risk, accept the risk or mitigate the risk, depending on the frequency and severity of the risk event. It may be a low impact finite risk event that is within acceptable levels (absolute risk), or it may be embedded in the business or persistent in nature. Regardless of the risk, there should be taken action to prevent further harm to the firm. The Risk management theory chapter above can be boiled down to 4 actions, which I have depicted below.

**Risk Management Framework**

| **Identify** → | **Evaluate** → | **Decisions** → | **Strategy** |
|---|---|---|---|
| Type of risk:<br>Implicit/Explicit | Vulnerability:<br>Low/moderate/high | Avoid Risk | Find alternative course |
| Finite/Persistent | Frequency/Impact | Transfer Risk | Find counterparties/insurance |
| (Absolute Risk)<br>(Embedded Risk)<br>(Strategic Risk)<br>(Regulatory risk) | | Accept risk | Understand exposure/<br>Risk event/factors + Reserve capital for risk events |
| | | Mitigate Risk | Understand and Reduce Exposure |
| | | Exit Business | Find company/risk buyer |

Table 2.0 - Created from R. Walker 2013

It starts with identifying the types of risk, once this is known, the firm can then evaluate its vulnerability, by figuring out if the frequency and impact of the risk event is a low, moderate or high vulnerability risk event. By knowing the type of risk involved, the frequency of occurrence and impact of the risk event, the management can make an informed decision of how to proceed and apply a strategy suited for the best outcome.

If an enterprise is internationalizing to several foreign markets, it may be facing several challenges, and by knowing them beforehand, choose to avoid the risk events, due to too much uncertainty in the market, its strategy then is to find an alternative course, this may be choosing a different entry mode or a different market. The market may be too lucrative to avoid, and therefore the strategy could be to transfer the risk to a partner. The essence of these types of risk is that the enterprise knows what it is getting into by explicitly selecting the least risky undertaking.

Once the firm is established in a market, other challenges may arise and may be of an implicit nature. For instance, an embedded risk in the operations, which may occur due to malfunctioning equipment, however, once the equipment is repaired, the risk event has passed. To use the risk framework below, the risk was identified as a finite event, embedded in the operation, and evaluated to be leave the firm at a low to moderate vulnerability, with unpredictable degrees of severity and frequency of the malfunctioning equipment. The management then has to decide if it can transfer the risk, accept the risk or mitigate the risk. The accident that made the production facility equipment malfunction may occur again, but maybe not for many years, management could then decide to accept the risk as part of doing business, and then mitigate the impact, after first understanding what lead to the malfunction the enterprise can implement failsafe's in the equipment, so the severity of the malfunction is reduced.

Management should choose the best option for the firm, which is the decision that contains and limits the exposure as much as possible. Actions may be required that prevents the exposure from spreading. The example above is about a firm that knew what it were going into, and were aware of the absolute risk to its operations, as time went on, it became an embedded risk, which had a higher severity impact on the operation. If the problem is not contained, it may spread further to be a more persistent and the firm would be in the infinite risk dimension of figure 2 on page. 33. The subsequent consequence of failing to limit the risk contagion is the limitation to the decisions available to management, and as it becomes harder to mitigate or transfer the risk; the firm may be faced with the final option of exiting the business. Though, if possible management should try to sell off the persistently risky assets or transfer them to between firms to limit the exposure.

## 5. Comparative analysis: Literature review and risk management theory:

This chapter will analyse what the literature review and risk management theory chapters taught us about risk in order to find an answer to the research questions. It should be noted that companies might face several types of risks at the same time, by using the framework of R. walker (2013)'s risk dimensions.

In regards to the research question the most relevant risk types for this thesis is market/country risk, operation risk and regulatory risk. INV's are usually associated with exporters and high-tech industries, which means the market and technology risk dimensions are very likely risks that firms in these industries will face. The benefit of these industries is that they often can predict and know the risk before they choose to enter a market, the risk management theory chapter teaches us that this is explicit risk, meaning the firm selects how much risk it's exposed to. And the literature review chapter teaches us that firms should have a focus on the market and the customers. The firm accumulates market knowledge over time, which should reduce market risk as time progresses. By adapting to the market, the firm is able to adjust its product and service to the customers need, this should keep the frequency and impact of the risk at a low probability.

Market risk is suggested as having liquid assets (table 1), meaning it is easy to convert to cash, and it is easy to get out of the market. Market risk is a limited exposure, tied only to the investment made. (R. Walker 2013) Which is ideal for INV's to keep their risk exposure low, and by focusing only on known markets, the INVs can accumulate market knowledge and adapt to customer needs in peace. Exporters are a good example of INV's that benefits from minor market investments, given that the exposure should not exceed the investment and be finite in exposure, such as exported goods or a warehouse.

Once the company is producing its own goods, it may be even more important to know exposed business areas. Both theoretical chapters agree that firms should be self-aware of its limitations and identify the best path with minimum amount of risk. Firm should be proactive in their response through early discovery of the risk involved in opportunities. Production companies are more likely to have country/industry and operational embedded risks than purely export companies, which may rely more on favourable market conditions to sell their wares. However, common for all types of firms that want to be proactive in risk prevention and risk spreading is to identify the firm limitations and core competencies. Several authors in the literature review *(Gabrielsson & Gabrielsson (2013), Sepulveda & Gabrielsson (2013), Aspelund & Moen (2012), Fernhaber & Li (2013))* argue that risk is managed by using network connections. Though, it is not specified on what type of risk is transferred. R. Walker (2013) argues operational risk as transferable, which could consist of production facilities, natural hazards (fire) and supply chain losses, these are all things that can be moved out of the company and be handled by a partner, natural hazards are not easy transferable, but if it happens in a partners building, at least the losses are mitigated to your firm.

By having a network partner, these risks can be shared, and limiting the exposure to both companies. R. Walker (2013) argues that a firm should identify its own and partners core competencies and leverage best practices and expert partners to handle operations outside your core competencies. However, it is also noted that you should measure and track your partner's risks. The thought process of outsourcing the risky parts of business is in consensus with the literature review that argues using network partners to minimize exposure. For instance, it could be parts of the supply chain were better served by having a local partner with more local knowledge, needless to say, the supplier would have to be trustworthy to make a delivery, while the risk may not have been completely transferred out of the firm, at least it would be mitigated to the best of the firms abilities.

Basically, the idea behind risk management is to get the best out of any situation. Operational embedded risk are unpredictable or not tied directly to the investment, which is why its classified as an implicit risk dimension, though it should be limited to a finite event, the ramifications might still be felt over a long period of time, depending on the loss or if the risk can spread.

Country risk is similar to market risk in the sense that firms choose the country they enter, though country risk events can occur at persistent pace, the literature review uncovered several issues in regard to cultural differences between the domestic and foreign market. Country risk is especially present for firms that makes foreign direct investments, whether it is a Greenfield investment or buying another company as a subsidiarity, the cultural differences in the new market may impact performance if the firm doesn't adapt to the new culture. The conditions of the market may not support the current business model, which may hinder the subsidiary's ability to work at peak efficiency. Some of the literature review examined how culture affects entrepreneurial behaviour, and while country risk doesn't have to be in regards to start-ups, it is important to know how the employees behave in different countries. For instance, Chinese workers may not be easily adapted to US work conditions, same as US work conditions may differ from those in France. Which is why shared language culture and cultural proximate markets were discussed earlier in the literature review as a way for INV's/BG's to reduce risk during the early internationalization period.

Country risk that is economical in nature are more subject to the fluctuating market conditions. While management can choose to avoid huge cultural differences by entering proximate markets, it is a different matter for the country's economic situation. As an example of current events, If a US New Venture were to choose a new market to produce its products for a European expansion, and it wanted cheap labour plus easy transport lanes, either by ship or land. Would Greece even be considered for such an expansion? Compared to the more secure markets of Germany, France or even Denmark? Most businesses would not likely enter Greece since its economic condition are on the verge of collapse and a threatening country bankruptcy on the horizon. The economic conditions of Greece are therefore a perfect example of economic driven persistent country risk and a market where management would most likely consider alternatives for internationalization. Even if Greece would be the perfect spot for expansion, with qualified labour at a low cost, and a good supply of resource at a cheap price, would any manager choose to invest in such an economic insecure future, where the banks might not open the next month?

The answer is no, it would leave the company in a high vulnerability situation where the entire investment could be at stake. Though the above example with Greece is conjecture, with some basis in reality, it is however, a good demonstration of choosing to avoid markets where the investing company is in a vulnerable situation.

In a case of cultural differences, management could choose to transfer some parts of the operation to a local partner, and through understanding the cultural differences, overtime mitigate the risk of having a cultural diverse workforce. Though sharing an operation with a partner also contains uncertainty, the partner has to be trustworthy and able to deliver, or the firm may be facing embedded risk as well as country risk. In the case of economic country risk, such as Greece, the safest internationalization path would be to avoid the risk of entering Greece, and instead choose a more suitable market where the risk is acceptable, or can be mitigated or transferred. The key to risk management is to understand the exposure and plot a strategy that provides the safest and best outcome.

The firm may be exposed and highly vulnerable with regulatory and reputational risk, as these are implicit in nature and can be persistent (infinite risk dimension). INV's/BG's are often refer to as having unquantifiable intangible assets as part of their business operations, and as such, could a damage reputation have very high consequences to the firm's ability to survive. Another example of infinite risk is the inability to operate. The literature review cover some intangible assets as knowledge, with the risk of knowledge spill-over to competitors as a primary concern. Losing important intangible knowledge or suffering a loss of reputation can have long lasting consequences. The figure 2.2 teaches us that the strategy for high vulnerability situations are to avoid the risk or sell the business, therefore, it is imperative for INV's/BG's survival that intangible assets are protected, whether it is essential knowledge or reputation. Regulatory changes are also cited as being of infinite risk, for exporters it could be trade regulations making it harder to export to a lucrative market. Even though the mentioned market has put up trade barriers, it doesn't have to be the end of their business. Lucky for exporters, they can chart an alternative path to making the economic situation better, as such they have the benefit of choosing other markets to export to. For instance, an exporter have been doing business in the middle east for a while, but new regulatory changes have made it harder to sell to the middle east, as such, the exporter can choose other markets for their wares. Harder it is for importers in the Middle East, if the same laws affect their imports, they may have to save their business by moving it to another country.

Managers in an infinite risk situation might find their options limited, and should consider avoiding the risk, as the risk is tied to the business environment the company resides in, they have little power to mitigate or transfer the risk. The 5 major decisions says that if you cannot avoid it, transfer it, mitigate it, you can either accept the risk or exit the business. By selling the business, it would be possible to start up in a more favourable business environment, though it would mean moving everything to a different country, which may have its own risk and rewards.

This analysis has taught us that there are many similar aspects of risk management theory in the literature review, though the main difference is the scholars use empirical data on how INV's/BG's handled several challenges and risk situations. The risk management theory chapter provides more in-depth knowledge of the specific risk or how the firm can handle risk events, in a case-by-case study of each risk dimension. However, it is possible to recognize the five major decisions from R. walker (2013)'s theoretical framework in the literature review. INV's literature often mentioned sharing risk as a way for new venture to easier handle the early internationalization period, by gaining access to more capabilities or resources through a partner. Mitigating or transferring risk should be a priority for new ventures, regardless of industry; it should be beneficiary to not carry the burden of all the financial risk. Both the literature review and risk management theory agrees on transferring risk away from the enterprise.

Understanding the exposure is a high priority in risk management, once it is understood an action can be taken, and that action equals a strategy. Though a difference between the two theory chapters that have been reviewed is how to view firm growth. The literature review's scholars were arguing growth and survivability as a risk avoidance (growth equal survivability) and getting help with survivability through a partnership that can enhance capabilities and resources, or share financial risk. The study by Aspelund & Moen (2012) argued that INV's/BG's are often starting with a hybrid governing structure, meaning a joint venture or partnership is very likely at the beginning, but are changed toward a single entity governance structure later on. Meaning, their interest in partnerships disapate over time, as they grow to have the resources to become independent. R. Walker discusses single cases of different risk management situations and as such does not looking upon growth and survivability the same way as the INV/'BG scholars. R. Walker noted that rapid growth and profits can exacebate operational risk due to higher vulnerability that operations may be taxed or insufficiently examined. Though the view on growth is contradictory, the solution is the same, to transfer the risk out of the enterprise by using partnerships.

The response to risk should be identifying alternatives and focus on preventing persistence and risk contagion by isolating operation risk from impacting the larger enterprise, and the better way of risk management is by being proactively working against risk events. Still there is a concensus in regards to the two theories, that the use of risk transfer is an important part of risk management. Though R. walker argues risk transfer in the sense that it should be transferred if the technology, operation or expert practices lies outside your core compentencies.

The main topics that have a concensus among the two theory chapters are the avoidence of risk, the transfer of risk and mitigating risk. The better risk management choices is when the losses does not occour or can be limited in exposure and contagion. The way one risk event can lead to worse losses by spreading through the operation is not a present in the literature review, and as such is part of the work of R. Walker alone in this thesis.

Every INV/BG will have to accept absolute risk (IE. market risk), it is simply a part of doing business in an intertionalal environment, meaning when firms go abroad they have to accept a certain amount of risk. However, depending on the industry and type of firm, there may be other risk dimensions to be aware of. Hi-tech firms may be vulnerable to technology schocks as a persistent exposure, while production companies have to be vigilant of operational embedded risks. Regardless of the industry, all INV's/BG's have to avoid risk contagion, which is dangerous to firms that ignore risks, and a risk event that might have been easy to handle can spread to a more persistent nature and increase in severity.

Low-commitment and high-commitment entry modes carry their own set of challenges. High commitment entry modes are deeper invested in the market, their pressence is more solid. These challenges arise at an unforseeable pace, and in unpredictable paterns. To put the theory of risk management into perspective I have described a risk event and how management used the risk theory here.

I mentioned a high-tech firm earlier in the analyse, and imagine that company has rented server space in another country from another country that provides them with the hardware. The country has a completely foreign culture and language, but the high-tech company wants to launch their new software in that region. Now imagine that after 2 months of operating smoothly, that regions servers goes offline, and the firm must figure out what happened. This is a reactive response to a risk event, and it has to be fast. Every day that their software is offline, their reputation suffers, they get complaints, and they lose clients, which is all factors that cost them money. Finally, the problem is found, the servers were shut down due to overheating, a hardware failsafe were put in place and if one shuts down, all shuts down with it. Furthermore, the tech company were informed that it were their responsbility to manage their servers and getting the servers back online will therefore cost them a moderate fee.

By looking at the risk management framework (table 2 p. 53), we have identified the risk, it was implicit in nature, and since it should not spread to do more damage, it was a finite event. The risk event is therefore identified as operational risk, and evaluated to happen a few times a year, due to hot summers, and the impact was felt quite high, since the operation were completely shut down for days, with customers losing online data, and complaining, and the company reputation suffered a loss.

If the company does not react to this risk event and just accepts that their servers shuts down a few times a year, there is an increased chance the risk events returns, which may cause further reputational damage, and the risk spreads from being operation risk to also include persistent reputational risk, which can take a lot longer to repair. By consulting table 2,(p.53) we can evaluate the vulnerability of the firm to be moderate, as the impact were felt quite severely and even though the frequency may be limtied to a few times a year, the cost of the repairs and loss of clients still puts the firm at moderate vulnerability, with a danger of a high vulnerability if the risk spreads and become more persistent.

The company now understands what happened, and has to decide what to do next. Again, we consult the table 2.0 (p.53) just continuing to be reactive means accepting the risk and the losses that comes with it. The owner of the high-tech company wants to be proactive, since their partner failed to help them prevent the risk event from happening, he looks over the 5 major decisions in this thesis and discount options such avoid the risk (since it already happened) and exit the business (since it was not severe enough). The decision to accept the risk, transfer the risk or mitigate the risk is then available. By accepting the risk, the company should just reserve capital for risk events (figure 2.3 (p51)) but otherwise continue to be reactive when it happens. This decision is not acceptable to the management.

The two last options are then, transfering the risk to a new partner that can oversee everything or find a way to mitigate the risk. In this case, management choose to invest in reducencies, which means they purchased their own equipment and making sure the room temperature is regulated. Furthermore, they invest in backup computers, so their servers will always be able to save the customers data and be online. By investing in redundencies they mitigate the risk, decreased the severity of impact and the frequency in which it can occur.

The above example should demonstrate the thought process behind the risk management framework, it could also be applied to a firm that were investigating new markets for expansion. Where each market is evaluated on the basis of what is known and what can happen. The choice of market also determins how vulnerable a company is to outside factors, and may have an impact on the internal operation.

It is easy to accept a study’s remarks about a company’s challenges and the risk that were involved, this thesis has shown that there is a lot more to risk management for INV’s/BG’s that are usually discussed by the scholars of the literature.

## 6. Conclusion:

The literature review taught us that INV’s/BG’s should be flexible, by adapting to the market, customer needs, competitors, market trends through accumulated market knowledge to minimize risk and stimulate growth. Furthermore, an important aspect of internationalization were contributed to partnership in foreign markets, by using network connections to find new opportunities, gain capabilities/knowledge, share risk and be internationally exposed through networks. The goal of using network connections were described as a way to gain access to capabilities/resources that would otherwise be unavailable, and to manage risk through a partnership that minimizes exposure.

INV’s/BG’s are viewed as having a certain amount of fluidity as part of their business structure, to have more than the sum of its parts. To manage risk in a company that stretches globally, the essence of the enterprise, the core of its business should have the same focus, meaning the same product, the same competences and ability to satisfy customer needs should remain the same, but where the presence of the firm is positioned is basically changeable. Meaning the company can have a presence in several markets globally, and simultaneously de-internationalize from less profitable markets while internationalizing in pursuit of new opportunities. This type of risk management is not a general methodology for risk management, but rather a generalization of INV’s/BG’s way of handling risk, expansion and growth. There were many similarities between the literature review’s risk management and R. Walker (2013), both uses concepts that encompasses a way for transferring risk out of the company and coming up with alternatives paths to avoid risk altogether.

To answer the question: How do International New Ventures and Born Global manage risks associated with early internationalization?

By being proactive in regards to risk events, finding alternative paths to minimize risk before internationalization, and once established. Find and use the options available to the firm, including, but not limited to, using network connections to transfer risk out of the company and investing in redundancies. Finding the best strategy to manage risk takes time, and requires information about the risk. Being proactive is not always possible and reacting to risk requires just as much time and resources to come up with a strategy that reduces the exposure.

Most INV’s are suggested as having a small governance structure, meaning that there is not far from the low level employee to top management, so by avoiding a rigid business structure the company can remain more flexible due to fast response times, even to risk events that might otherwise seem challenging. The core is information gathering and how the firm respond to the information.

The analysis showed more than one way to manage a risk event. Furthermore, the literature review displayed a method of risk avoidance by focusing on the market needs to ensuring growth and prosperity in the enterprise. This way the INV’s/BG’s manage risk in the early internationalization period by having an adaptable business structure and market presence, and by only taking on risk that can be accepted or managed through partnerships.

# 7. Implications and future research:

This chapter will go through how this study can help further studies in the field and what the implications are for practitioners and academics interested in theory development.

This thesis does not challenge any existing theories, but seek to advance the field of risk management for INV’s. If others would like to follow in the footsteps of this study, they should consider how different risk management frameworks can affect INV’s and consider what options are most applicable to the international entrepreneurship studies. The results should be tested empirically on a sample to either confirm or reject the findings of this study. It would be intersecting to see if the basis laid forth in this thesis could be confirmed in an empirical study. Theoretical discussion can only take research so far, before it has to be confirmed in the real world.

A theoretical risk management framework constructed for INV's specifically could then be developed, and how INV's should construct their business plan, depending on the industry, to maximize growth with minimum of risk.

I believe this thesis can benefit scholars that find the subject of risk in international entrepreneurship interesting and want to build on the theories discussed in this thesis and practitioners can benefit from gaining an understanding of risk and use the theories discussed here on their own practice.

## 8. Limitations:

One important limitation to this paper is that it is only limited to international entrepreneurship and the database (http://ie-scholars.net/) and as such, is not the complete work about risk management in early internationalization over the examined two-year period. This means that there are potentially other useful studies that were not reviewed and may have shed a different light on the study and subsequently changed the outcome of the conclusion. The analysis are therefore based on a limited selection of very specific articles within the field of international entrepreneurship. Furthermore, SME's and MNC were eliminated from the selection process to keep the focus INV's and BG's, meaning the analysis may have had more research papers on internationalization and risk management if these were included. The results of the analysis may therefore also had changed if the sample had been larger or included other types of firms, such as SME's early internationalization period. Due to time constraints the sample were limited to two years of research papers and there may have been other studies that would have changed the outcome of the study if a longer period were included in the literature review. An important aspect of the thesis is derived from the time period that were examined, the scholars published a wide range of topics and theoretical discussions, the direction of the thesis may have taken a different road if another two year period were selected, or if a longer period of time were included in the study.

## 9. De-limitations:

The selection of INV's/BG's were very specific and only a limited amount of literature were reviewed. The thesis may have found a broader consensus among scholars on a wider range of risk management topic if more literature were included. I choose two years as it seemed as an appropriate size sample for a Master thesis.

Only one book were reviewed for risk management, the most suitable theoretical work were chosen for this thesis, though a complete review of risk management theory across a wide range of topics and cases would have been suitable too. A complete review of INV/BG literature and a complete review risk management theory could have provided a more complete answer, however, there was not time to review all materials, and as such, only the most appropriate risk management framework were selected.

## 10. Critique of theories:

One major critique about the risk management theory by Walker 2013 is that it is not directed toward the same type of business as the literature review. The risk management framework could also have been used in an SME or MME study. This limited the options and risk event situations to what the literature reviewed described as most likely risk events that should be managed.

Several of the theories in the literature review were not applicable to all types risk situations, though the scholars discussed it in regards to different types of situations, including risk.

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