Management of Risks in Export Networks: The Role of Collaboration

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ABSTRACT

The globalized economy is increasingly affecting small and medium-sized companies (SMEs). As markets and growth are moving outside Europe, SMEs need to find new global customers and build their market entries through export networks to remote locations which often have different cultures, regulations and practices. This paper discusses the risks and challenges related to this transformation, based on observations from Finnish SMEs. Previous research on risk management in the context of export networks and collaborative networked organizations is utilized in the work. Using information collected from Finnish SMEs, the paper analyses the risk factors and risk management methods in export networks. The role of collaboration is discussed, both as a source of risk and as a measure to decrease the risks. Based on the analysis, companies appear to value the risk management methods including collaborative actions with partners, but the use of these methods in practice is low.

KEYWORDS
Collaboration, Collaborative Networks, Export Networks, Logistics, Market Entry, Risk Management, SME

INTRODUCTION

Companies looking for growth see increasing business opportunities in new markets and geographical areas which may be at a great distance. Entering new markets is, however, not simple for SMEs. The resources of SMEs, both as regards finance and competent personnel are lower than those of large enterprises. Lack of knowledge and lack of resources are usually the biggest constraints on the internationalisation of SMEs’ (Freire de Sousa & Figueira de Lemos, 2009). To avoid the failures of high investments, SMEs need to consider the potential risks and challenges and how to prepare for them. Identifying proper collaboration partners and building appropriate collaboration practices can support the companies in this task. Also, finding the right mix of practices which fits the available resources is vital for SMEs (Yang & Fernandes, 2010). Additionally, when establishing themselves in distant markets, the companies need to consider the suitability of the products to these markets: adaptation of the products as frugal innovation may be needed. Frugal innovation involves designing solutions, “good-enough, affordable products that meet the needs of resource-constrained consumers”, specifically for low-income market segments. (Agarwal & Brem, 2012)

Enterprise collaboration stems from the circumstances that in the current business environment companies are not able to have all the competencies and capabilities they need in one company. Enterprises aim to gain benefits and competitive advantages by creating and participating in collaboration networks (Camarinha-Matos, 2005). They focus on their core competences and develop relationships with external enterprises in order to acquire the knowledge and resources required to
serve customers. Networking may also be needed because of customers wanting new types of products or extended products which require new knowledge and competencies. Also, entering new markets often requires the creation of new collaboration relationships. Different reasons for networking have been described for example in Kurumluoglu et al. (2005).

There are different alternative collaboration arrangements or entry modes in entering new markets, such as distributors, agents, etc. (Grünig & Morschett, 2012). The entry mode may be dependent on the geographical area, customers and product type, and it may also evolve over time. Thus, there is not only one valid solution for all the situations. The need for collaboration also depends on whether the SMEs only search sales and distribution channels or whether they also need to set up other activities, such as local manufacturing and service operations in the area. The main objective in this context is to have new customers and new sales and to be able to deliver the products or services to this new market efficiently. Thus, the challenge for networking here is not outsourcing of production to low-cost countries, creation of a global manufacturing network or managing the supply chain from material supply, through production to delivery, but managing the whole system from sales, through design, material supply, manufacturing and logistics, and operation support services to the remote customers. The focus in this paper is especially on remote activities (activities outside the home country) or new partnerships needed for export. To emphasize this, in this paper we use the term export network to denote this collaboration.

The business operations of the company are strongly connected to external network actors, such as competitors, political actors, suppliers, sellers and customers (Tidström, 2012). The global operation makes the SMEs more dependent on global conditions than before, including instability resulting from economic crises, changes in oil prices, demand changes, natural disasters, delivery breaks and varying costs. The risks associated with turbulence are now greater than they have ever been since the concept of supply chain management (SCM) was first presented (Christopher & Holweg, 2011). The instability and uncertainty also relate to export networks, but as such they have not been the object for risk management research. On the other hand, in spite of substantial developments in supply chain risk management, its implementation status in practice, especially as proactive actions, is still at a low level (Kersten & Wente, 2012).

This paper analyses the export networks of SMEs so as to create a better understanding of the challenges and risks involved in entering and operating in new market areas. Also actions to avoid risks are studied, as is the potential of collaborative practices to support risk management. The previous research is reviewed from two viewpoints, risk management in the context of export networks and collaboration network research, to identify and create the basis for further study. The paper includes sections presenting the research context and approach and the results of the study based on the information collection from SMEs. Finally, the paper gives suggestions for the way forward.

**LITERATURE REVIEW**

**Risk Management in the Context of Export Networks**

Risk can be defined as an expected outcome of an uncertain event. Traditionally, when defining risk, the most commonly used risk dimensions are probability and impact of losses (Manuj & Mentzer, 2008; Ojasalo, 2009). In this study, supply chain risk management was used as a basis when defining the concept of risk and risk management due to its close relation to the subject. According to Harland, Brenchley, and Walker (2003), risk in supply chains can be defined as the “potential deviations from the initial overall objective that trigger the increase in the cost of value-added activities at different levels”. Singh, Mishra, and Jain (2012) have presented the following categorisation of risks from the supply chain management perspective, which is adopted in this paper:
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