The second teaching block

- Business methods background
- Implementation of Trade Operations
- Trade Documentation
- The Role of Risk in Trade Operations
- The Risk Management Process

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Radka Bauerová
International Trade Operations
12. 3. 2024

Content of the first part of the presentation

1. Business methods
2. Classification of business methods
3. Specification of factors influencing the choice of business methods
4. Barriers to International Expansion

BUSINESS METHODS

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The **globalization** of the world economy coupled with mature and saturated home markets mean that international activity is a major management issue for most large retailers today (Rafiq, 2014).

However, the **move from purely domestic retailer to international retailer** is a significant step for these reasons (Bhatia, 2008):

Therefore, it is important to use **appropriate business meth**
business method of internationalisation presents its own advant
and funding of new investment, **how quickly the retailer**
abroad and **the risk factors involved.** (Bhatia, 2008)

Nowadays, all types of retailers (luxury goods and specialist r
fashion) are active in international retailing activities.

TYPES OF BUSINESS METHODS

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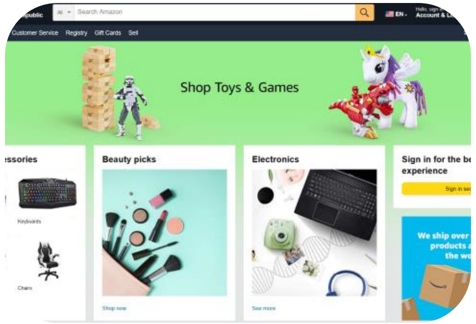
Exporting



Licensing product brand

Licensing process

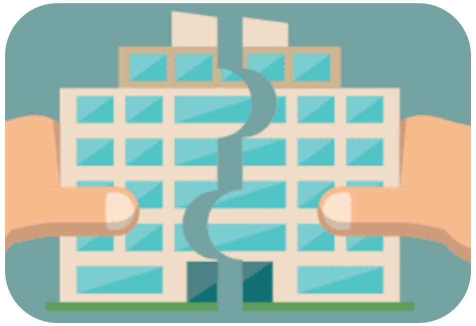
Agents

Management contract

Franchising

Strategic alliance

Joint venture



Acquisition

Establish subsidiary abroad

CLASSIFICATION OF BUSINESS METHODS

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Business methods are usually explained in terms of useful, cost, risk and market growth. However, for the purposes of this subject, we will focus on trade operations and usefulness of methods in retailing.

Figure 1: Business methods of internationalisation in retailing

	Business method	Trade operations	Method is useful for/when
	Exporting	Receives order from abroad; sends product abroad	Premium brands from high-class retailer; easier with website
	Licensing product brand	Sells brand through another store in foreign country	Recognised brand in niche or undeveloped markets
	Licensing process	Allows another retailer to use store brand or format	Service element usually makes this method inappropriate for retailing
	Agents	Uses an individual or company to represent its interests	Cost of alliances is too high or market potential is limited
	Management contract	Manages a business for another company; it receives a fee plus a percentage of profit	Hotel sector; in newly developing regions; where ownership restricted to national firms
	Franchising	Allows another business to operate under its name	Fast food; cosmetics; hotels; fashion products
FDI	Strategic alliance	Has partnership with another retailer or distributor to work together	Entry into some markets for political or cultural reasons
FDI	Joint venture	Setting up jointly owned subsidiary to develop new market	Host country´s laws regulate ownership or require indigenous partner
FDI	Acquisition	Buys existing retail business. May convert to own format or keep existing brand	Quick entry to local markets; useful where there are significant restrictions on market competition or store development
FDI	Establish subsidiary abroad	The company has an ownership interest in the business.	Organic growth (used by Tesco in Eastern Europe)

Source: adapted from Bhatia, 2008

SPECIFICATION OF FACTORS INFLUENCING THE CHOICE OF BUSINESS METHODS

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Global retailers carefully **plan** their international operations.

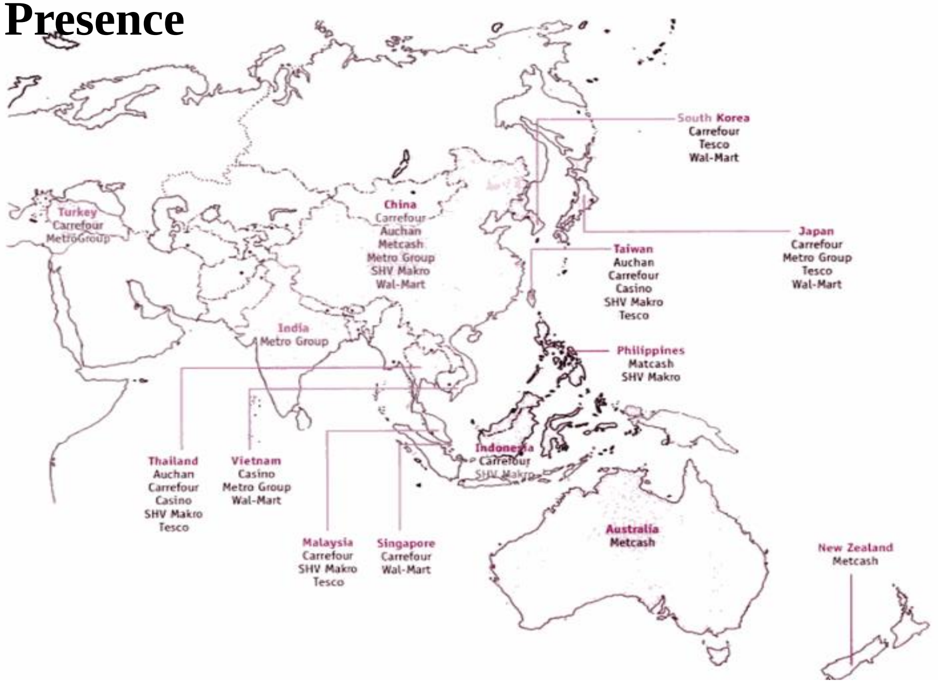
Before entering a new market they do a feasibility study and then design the best **strategy** for market entry.

Different international retailers have entered foreign markets at different points of time.

The business methods that global retailers take to entry a market depends on various **factors** such as (Mukherjee and Patel, 2005; Rafiq, 2014):

- Cost, control, uniqueness of the format
- Financial strength of the firm
- Local market condition
- Existing regulation governing retail trade
- Characteristics of the supply chain
- Availability of infrastructure facilities
- Consumer demand patterns
- Presence of domestic organised retailers
- Barriers to foreign investments in allied sectors such as real estate

Figure 2: Non-Asian Retailers Regional Presence



Source: Mukherjee and Patel, 2005

Most Preferred Entry Routes of Global Retailers

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The most preferred entry routes of global retailers are ranked from the most used method the following (Mukherjee and Patel, 2005):

1. Mergers and acquisitions
2. Joint ventures
3. Franchising
4. Wholesale cash-and-carry

MERGERS AND ACQUISITIONS

It allows bypassing barriers related to consumer preferences in merged company, which means that company A + company B = company A, where company B is merged into company A (Gaughan, 2017). Acquisition means gaining control over the company´s activities.

- **Example in retailing:** In 1997, Wal-Mart entered German market through acquisition of the local chain Wertkauf. Later it purchased another local chain Interspar. By purchasing these two domestic chains, Wal-Mart wanted to gain significant market share and at the same time reduce its competitors. Wal-Mart also entered by this way these markets: UK (Asda), Canada (Woolco), Asia (TOPS), and Latin America (Disco). (Mukherjee and Patel, 2005)

Most Preferred Entry Routes of Global Retailers

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JOINT VENTURES

It allows to circumvent the consumer preferences related barriers in collaboration with the local firm.

- **Example in retailing:** In 1991, Wal-Mart first set up operations in Mexico by opening Sam´s Club with 50-50 joint venture with Cifra, one of Mexico´s largest retailers. It now operates in Mexico under the name of several entities.

FRANCHISING

It allows firms to expand without investing their own capital, is based on local expertise and enables firms to circumvent local oppositions and regulations.

- **Example in retailing:** McDonald´s have entered into many countries through this mode.

WHOLESALE CASH-AND-CARRY

A cash and carry wholesaler has a warehouse set up with a cash and carry wholesale business (products are sold for cash and typically without any sort of delivery service).

- **Example in retailing:** Metro AG of Germany and Shoprite Checkers of South Africa have entered India through wholesale cash-and-carry operations.

Barriers to International Expansion

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Barriers to International Expansion

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A large number of retail chains are expanding their operations beyond national boundaries, however, only few of them are able to sustain those operations and make profits. In some countries, domestic legislation controls the types of entry methods employed by retailers (Rafiq, 2014). → **Why are they doing this?**

Examples of failure in retailing:

- Carrefour had to withdraw from the US due to steep competition from Wal-Mart
- Wal-Mart had to leave Hong Kong after two years of its entry in 1994 and withdraw from Indonesia following the 1997-98 riots when its Jakarta store was looted and torched.
- Boots (UK-based health and beauty product retailer) had to sell its Dutch store to Royal Ahold in spite of having significant profits at home.

Multinational retailers face several barriers and difficulties in overseas markets, which includes these ones:

- **Barriers to entry and operation** (only faced by foreign retailers)
- **Domestic regulation related barriers** (both foreign and domestic retailers)
- **Other barriers** (both foreign and domestic retailers)

Barriers to Entry and Operation

Retail trade relies heavily on the freedom to establish a commercial presence in the foreign country. Hence, any barrier which limits the ability of firms to establish commercial presence affects international retailers. In many countries there are significant **market access restrictions** on foreign investments.

Examples in retailing:

- In Sri Lanka, foreign investment is not permitted in retail trade with a capital investment of less than US $1million.
- In Malaysia, in case of acquisitions by foreign investors, 70 per cent equity can be held either by Malaysians or foreign investors as long as the 30 per cent "Bhumiputra" (Malays and other ethnic groups) equity condition is met.
- China has allowed entry of foreign players in retailing through joint ventures, there are several requirements relating to minimum wholesale volume, minimum imports and exports, minimum registered capital etc.

Typically market access restrictions (Mukherjee and Patel, 2005):

- ➢ Limiting foreign equity ownership to specific levels
- ➢ Limitation on the purchase or rental or real estate
- ➢ Economic needs tests for service suppliers
- ➢ Requirement to form a joint venture with local suppliers

Domestic Regulation Related and Other Barriers

Many countries have imposed **regulations** which prevent large retailers from expanding their operations and benefiting from economies of scale. These restrictions **prevent anti-competitive** practices and/or **protection to the local small retailers**.

Example in retailing:

-In Germany, restrictions on shop opening timings and on retailers´ pricing policies, under the fair trading and anti-trust laws, is making it difficult even for larger players like Wall-Mart to operate in that market.

Typically domestic market access restrictions (Mukherjee and Patel, 2005):

- Restrictions on the number of retailers
- Restrictions on the size and location of outlets
- Restrictions on the outlets and zoning regulations

Other barriers include these ones:

- Strong local competition
- Unfamiliar customers taste
- Low purchasing power of consumers
- Customers preference for certain domestic formats
- Unstable political situation
- Poor quality of infrastructure

Summary of International Expansion Barriers

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Common Barriers to Entry and Operation:

- FDI restriction
- Joint venture/local incorporation requirement
- Minimum capital requirement
- Local sourcing requirement

Common Barriers Due to Domestic Regulation:

- Restrictions on geographical location and zoning regulation
- Limitation on size and number of retail outlets
- Restrictions on shop opening timings
- Restrictions on pricing, advertising, promoting and selling certain products

Common Other Barriers:

- Strong local competition
- Unfamiliar customers taste
- Low purchasing power of consumers
- Customers preference for certain domestic formats
- Unstable political situation
- Poor quality of infrastructure

- **What other barriers can affect international expansion?**
- **Why is knowledge of these restrictions important in trade operations?**

BUSINESS METHODS AND EXPANSION BARRIERS
- a task to practice

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A ONE-POINT ASSIGNMENT!

WORK IN PAIRS

Each team draws a Czech company selling a specific product and a market that the company wants to enter with its product.

Task processing procedure:

- Conduct a market analysis and try to **identify** all possible barriers to entry
- **Decide** which business method of market entry is most appropriate and **justify** your claim

Time: **20 minutes + 10 minutes to present team results**

Business methods: exporting, licensing product brand, licensing process, agents, management contract, franchising, strategic alliance, joint venture, acquisition, establish subsidiary abroad (FDI)

Content of the second part of the presentation

1. The role of the preparation and the plans for entering chosen market
2. Types of business negotiations
3. Business negotiations from the international perspective
4. Specification of documents types in business relations from the national perspective
5. Specification of documents types in business relations from the international perspective
6. Explanation of Incoterms

THE IMPLEMENTATION PHASE OF THE BUSINESS OPERATION

- Trading on foreign markets is carried out through individual trading operations, which can take different forms of entry into the international market.
- They are specific in content and consist of a preparatory and implementation phase.

Preparatory part

- Preparatory phase
  - Market research
  - Transaction planning
- Contract phase
  - Conclusion of a negotiated contract

Implementation part

- Implementation of the business operation
  - Transport insurance, insurance of goods
  - inspection, shipment of goods, invoicing, customs procedures
- Acceptance and payment phase
  - Buyer accepts (receives) and pays for the goods
- Finalisation phase
  - Accounting liquidation of receivables
  - final calculation
  - settlement of conflicts and claims

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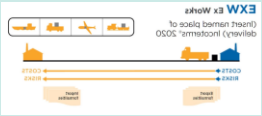
Phase of Business Operations - a perspective on the differences between domestic and international trade

Business operations are content-specific. The various stages and activities of the trade operations are detailed below.

<table>
<tr><th>Phase</th><th>National environment</th><th>International environment</th></tr>
<tr><td>1. Preparatory phase of business operation
</td><td>The domestic manufacturer, wholesaler or retailer sets out their buying or selling strategy, in which they sets out the goals and the results they want to achieve in exchange.</td><td>Importer and exporter determinate their buying or selling strategy. Importer and exporter sets goals, results, which they wants to achieve by buying or selling. In the case of capital inputs into the markets, the conclusion of the contract is also preceded by the stage of deciding on the profitability of entering the interest market based on a set of analyses of the foreign market (Mulačová et al., 2013).</td></tr>
<tr><td>2. Contract phase of business operation
</td><td>Conclusion of the purchase contract based on previous negotiation between business intermediaries (exclude foreign trade) or business agents (its content, preparation of the contract, negotiation, formulation and activities that allow its subsequent implementation).</td><td>The content is the conclusion of the purchase contract based on previous negotiation between importer and exporter, business agents or business intermediaries (its content, preparation of the contract, negotiation, formulation and activities that allow its subsequent implementation).</td></tr>
<tr><td>3. Implementation phase of business operation</td><td colspan="2"> The goal is to fulfil the purchase contract, depending on how it was concluded.</td></tr>
<tr><td>4. Finalization phase of the business operation</td><td colspan="2"> The purchase contract must be terminated. Resolve any performance defects.</td></tr>
</table>

PREPARATION AND THE PLANS FOR ENTERING CHOSEN MARKET

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Trading on foreign markets is carried out on the basis of individual trade operations, which can take various forms of entering the international market. (Mulačová et al., 2013)

- If a company decides to enter the market, either through export or foreign direct investment (FDI), **business preparation and plans** to enter a selected market are a very important stage for a successful business operation.

Foreign market analyses are a process of targeted searching and gathering information about **conditions, trends, opportunities and risks of the monitored market**. While this is a regular agent in the preparation of import and export operations or FDI for large companies with sufficient experience and own specialized analytical-statistical and marketing apparatus, this preparatory part presents a number of problems for small and medium-sized companies. Therefore, it is advisable to use the support of state institutions established by the Ministry of Industry and Trade (see Lecture 2).

The analyses carried out can be broken down from a number of perspectives, according to the methods used, the subjects that commissioned and finances the survey, the macro or microenvironment targeted, by region or country, or by time. However, it is important for the decision-making of an individual potential exporter or FDI implementer in specific business situations to **divide the analyses performed according to their content and focus on specific areas for trading**. (Mulačová et al., 2013)

The Specific Areas of Survey Focus when Conducting International Business Operations

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- Territorial survey
- Commercial-political research
- Commodity survey
- Competition research
- Consumer survey
- Price survey
- Tax survey
- Examination of Payment conditions and instruments
- Survey of product quality and its technical level
- Logistics-Transport survey
- Exploring intercultural differences and social practices

- ➢ Before the final decision → conduct a risk analysis of the foreign trade operation

The Specific Areas of Survey Focus when Conducting International Business Operations

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It is important to carry out analyses in these specific areas for business operations (Svatoš, 2009):

- **Territorial survey** - focuses on the specifics of the area (country) in terms of macroeconomic, political, its trade policy and demography, including the country's creditworthiness (discussed in more detail in the second lecture).
- **Commercial-political research** – is an analysis of information on any autonomous market protection measures in use, tariffs, quotas, documents required and the stage of contractual instruments, including the examination of legal aspects.
- **Commodity survey** - focuses on the analysis of the market situation of a particular commodity, monitoring the development of prices, opportunities and tenders.
- **Competition research** - gathering information about the distribution of forces in the competitive market of the country (current and potential competitors), analysis of trends and further development.
- **Consumer Survey** - focusing on the consumer's purchasing behaviour and looking for factors that affect him, identifies the specific needs and desires. The analysis should identify who its customers (consumer, distributor, retailer) and specify the closer social, economic, age, gender and income characteristics of the market segment. In the case of the industrial market, know its country specificities and business partner profile.
- **Price survey** - has a key impact on pricing and acts as a marketing communication tool.
- **Tax survey** - finds out how the set tax level translates into higher prices of exported products, or how it affects business when opening branches abroad.

The Specific Areas of Survey Focus when Conducting International Business Operations

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It is important to carry out analyses in these specific areas for business operations (Svatoš, 2009):

- **Examination of payment conditions and instruments, including currency selection for the concluded contract** - is important to reduce insolvency or exchange rate risks.
- **Survey of product quality and its technical level** - prevents problems with the product market and ensures compliance with country regulations in the field of technical standards, sanitary and health regulations.
- **Logistics-Transport Survey** - focuses on identifying transport options, their costs, transport organizations or forwarding services and geographic specific areas.
- **Exploring intercultural differences and social practices** - involves identifying factors whose respect and use can significantly affect the marketability of a product or service. It manifests not only as linguistic, religious or communication differences, but also as differences in approach to business conduct, different meaning of verbal or written agreement, understanding of time, respect for authority, straightforward or tactical negotiation, individual or group decision making and business and private access in a personal meeting (**business negotiations**). Knowledge of national customs and their respect is a prerequisite for long-term business ties.

All information collected will be assessed by the exporter, importer, or FDI implementer either by their own expert team or with the help of external consultants. An important part preceding the final decision should be the elaboration of a risk analysis of the foreign trade operation. (Mulačová et al., 2013)

BUSINESS NEGOTIATIONS

TYPES OF BUSINESS NEGOTIATIONS

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As mentioned earlier, at the stage of preparation of a trade operation, it is important to find out the process of business negotiations in the country to prepare the trader as best as possible for the actual negotiation process.

Millions of international business deals are negotiated worldwide every day carried out by managers, business people, financiers, lawyers, engineers and sales and marketing executives. Many negotiations are carried out in face-to-face meetings. But, in addition, a wide range of alternative communication methods are used (text messaging, phone calls, emails, videoconferencing, virtual negotiation). Some of the factors that lead to success in both **domestic and international business negotiations** are the same, included (Maude, 2014):

- Preparedness of the negotiators
- Negotiating skills of the negotiators
- Quality of information acquired

But in many other ways international business negotiation differs from domestic negotiation and requires a different set of skills and capabilities – for instance, the ability to deal with complexity. The obvious complicating factors in international business negotiations are **language and cultural barriers** (Maude, 2014).

International business negotiation can be divided into micro and macro level negotiation (Weiss, 2006):

- **Micro-level negotiation** occurs between individuals, and is often focused on simple buying/selling transactions. Numerous small-scale buying-selling transactions are carried out every day by individuals who are in business for themselves.
- **Macro-level negotiation** takes place between organisations such as two international companies, or between a company and foreign government. Some macro-level negotiations are very large in terms of the values and the number of issues dealt with.

BUSINESS NEGOTIATIONS FROM THE INTERNATIONAL PERSPECTIVE

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International business negotiation differs from domestic negotiation in many important ways and requires a different set of skills and knowledge. The negotiators need to do more than simply transfer the tactics and techniques they used successfully at home to the international scene. **Cultural empathy and trust - building** skills are also needed. For example, negotiators from some parts of the world tent to distrust foreigners, which causes communication barriers to appear in negotiations. Other complications can include the impact made by **different legal** and **political systems**, as well as by **different negotiating customs** and **protocols**. (Maude, 2014)

Worldwide examples:

Chinese business negotiation culture

-the international negotiators should take into consideration three key aspects of the Chinese negotiation culture which would normally be critical for effective business negotiation. These are the three main Chinese cultural concepts and relationship management skills of ´guanxi´ (**relationship**), ´mianzí´ (**face**), and ´keqi´(**Chinese courteous and refined behaviour**). (Wang, 2017)

Russian business negotiation culture

-for trading with this country there are some specific practices, which states that the **language** of negotiation is Russian, important **personal contact**, business offers to be prepared **in different delivery parities** and in **different currencies**, negotiation of business conditions is sharp, the risk of contracts that it is not possible to influence, it is important to help in the territory from representatives or companies already operating on the market, the background materials must be in Russian language (or in Russian-English version), knowledge of not only **federal but also local legislation**, goods description and instructions in Russian , the **dates** of negotiations **are often delayed**.

Worldwide examples:

Brazil business negotiation culture

-the official language of Brazil is **Portuguese**, which is clearly preferred in trade negotiations, although some traders have a partial command of **English or Spanish**. Increased emphasis should be placed on the preparation of an interview with a business partner, which may to a certain extent predetermine the success or failure of their own business dealings. It has a very positive effect if at least part of **the promotional documentation is prepared in Portuguese**. If another language needs to be chosen, English is definitely better than the possible use of the Spanish version of the materials. It is advisable to arrive in time for the appointment in advance, although later arrivals of 10 to 15 minutes are usually tolerated. It is customary to address a business partner by **first name**, possibly with a supplement to the position he holds. Business cards are exchanged after the introductory performance. One of the prerequisites for success in the Brazilian market is respect for the fact that Brazilians like to deal with business issues during business **lunch or dinner**, so etiquette also plays a role. With regard to the relatively free working hours, it is recommended to use the interval between **10 am and noon or the afternoon after 3 pm** as the most suitable hour for a business meeting.

The United States of America business negotiation culture

-An accompanying feature of American business culture is the pursuit of **simplicity and straightforwardness**, it is better to use short and clear positions in presenting and negotiating without unduly explaining and describing complex contexts. Maintain **direct eye contact** during negotiations to build trust. It is common practice to hold **teleconferences**, often in the presence of three or more people. These negotiations need to be taken as seriously as ordinary personal business meetings, to prepare well for them and to connect with the phone from the Czech Republic at a specified time. At the beginning of negotiations, it should be made clear what the parties are entering into negotiations with and what their **expectations** are.

BUSINESS NEGOTIATIONS FROM THE INTERNATIONAL PERSPECTIVE
-Worldwide examples in short

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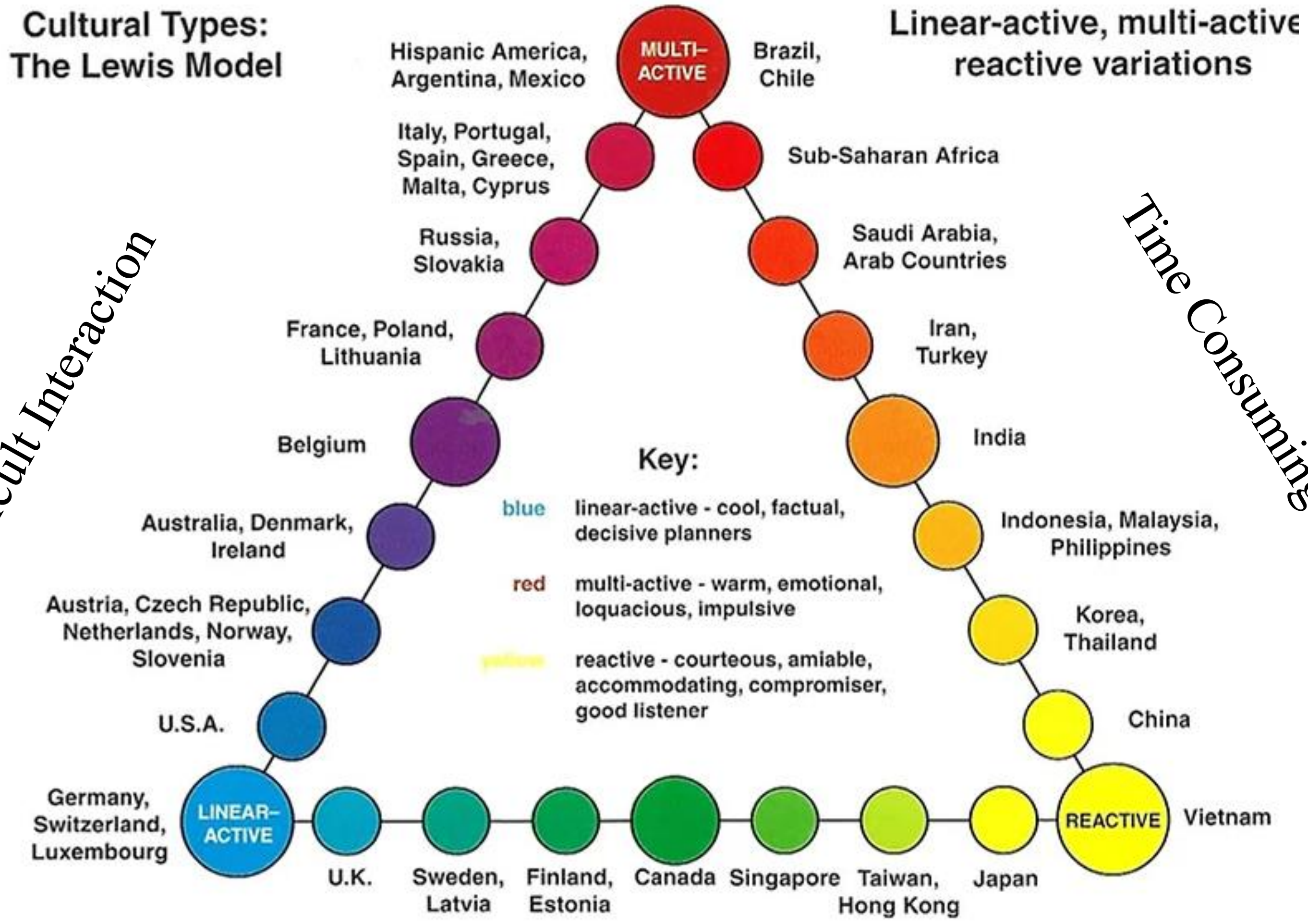
Country	Perception of negotiation time	Type of clothes	Language of negotiation	Preferred way of communication	Interesting facts in business negotiations
China	Appointment time preferably between 9-11 a.m. and 14-16 p.m. hours	Suit	Chinese	Personal meeting	The key is in the negotiations the role of a company **owner or CEO**. Inviting to lunch or dinner is a common part of a business meeting. Usually several courses are served. The invited partner is also expected to make a **few toasts**.
Russia	There is frequent delays in business negotiations	Business suits	Russian, but the management of large corporations and companies can also speak English	Personal meeting	**Gift exchange, frequent toasts**. Negotiations, which are often complicated by various **bureaucratic constraints**, are usually difficult, requiring patience and purposefulness.
Brazil	Appointment time preferably between 10-12 a.m.	Suit and formal shirt with tie	Portuguese. English and Spanish are also possible.	Personal meeting	It is usual to call a business partner by first name. Brazilians like to deal with business issues during business lunch or dinner. **Corruption also occurs**.
USA	In case of impersonal contact it is best to plan between 22-24 p.m. (in the case of the Czech Republic)	Conservative	English	Teleconference (Skype, videoconference)	Attendance of a company attorney in a business meeting. They **badly tolerate silence** in the meeting. **Sports issues** are perceived very positive and sporting verbal bargains can also be used (expressions like slam dunk, drop the glove).
Czech Republic	Appointment time preferably between 9.00 -11.30 a.m. and 12.30-14.00 p.m.	A conservative yet stylish suit is acceptable. Darker colours tend to be the norm.	Czech, English, other with the help of a professional interpreter	Personal meeting	If invited to a Czech home, it is appropriate to bring a **gift**. Good quality wine or spirits, chocolates and or sweets or something typical from negotiator home country is a good idea.

Cultural Types – The Lewis Model



Difficult Interaction

Time Consuming Interaction

Succesful Interaction

EXAMPLES AND PRACTICAL IMPLICATIONS OF CROSS-CULTURAL DIFFERENCES

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WHAT THE BRITISH SAY	WHAT THE BRITISH MEAN	WHAT FOREIGNERS UNDERSTAND
I hear what you say	I disagree and do not want to discuss it further	He accepts my point of view
With the greatest respect	You are an idiot	He is listening to me
That´s not bad	That´s good	That´s poor
That is a very brave proposal	You are insane	He thinks I have courage
Quite good	A bit disappointing	Quite good
I would suggest	Do it or be prepared to justify yourself	Think about the idea, but do what you like
Oh, incidentally/by the way	The primary purpose of our discussion is..	That is not very important
I´ll bear it in mind	I´ve forgotten it already	They will probably do it
You must come for dinner	It´s not an invitation, I´m just being polite	I will get an invitation soon

PREPARING FOR THE NEGOTIATIONS IN FRANCE

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Ways to success	**Ways to failure**
Try to get into French discussion regarding a free market and social guarantees	Talk only English
Show respect to French culture	Ignore French intellectual experience
Be sure that your French guests gets good food and drinks	Curse and drink too much
Keep the formal communication till you suggested to address by names	Decreasing importance of French language in a modern world
Be logic and consistent while negotiating and keep up with your decision	Refuse a proposal to have lunch or diner together

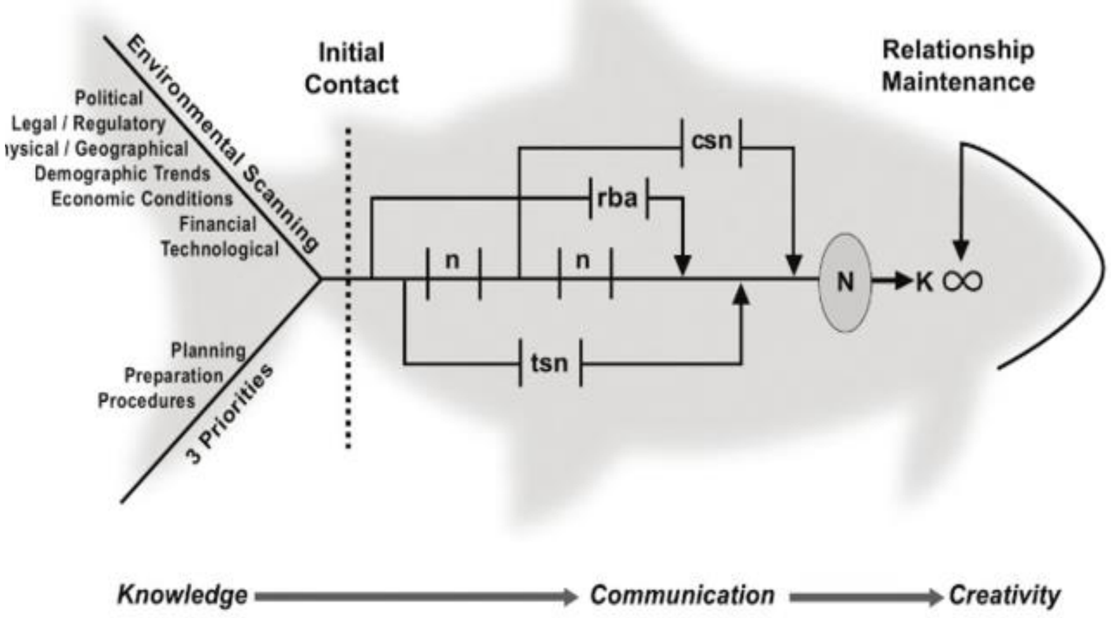
Icebreakers	**Icebergs**
Marvellous regions of France	Comparison of unemployment rate in France and EU
Food and wine	Old French – English conflict
Six Nations rugby Championship	Decision to choose a new world wine instead of French one

The Global Negotiation Process

The new rules in international business negotiation were created by Requejo and Graham, 2014 to efficient and creative international commercial negotiations. These rules help to transform international negotiations from traditional competitive and/or problem-solving activities into truly creative and innovative processes and include these simple rules:

1. Accept only creative outcomes
2. Understand cultures
3. Don´t just adjust to cultural differences, exploit them as well
4. Gather intelligence and reconnoitre the terrain
5. Design the information flow
6. Invest in personal relationships
7. Persuade with questions
8. Make no concessions until the end
9. Use techniques of creativity
10. Continue creativity after negotiations

Figure 1: The global negotiation process “The Fish”



Notes: N = formal negotiations
n = informal negotiation
K = contract/definitive agreement
rba = relationship building activities
tsn = technical side bar negotiations
csn = creative side bar negotiations

Source: Requejo and Graham, 2014

CONTRACTS IN INTERNATIONAL TRADE

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Contracts in International Trade

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For the actual conduct of business operations, the legal framework establishes contractual relations that are specific because their entities are from different countries and the legal relations extend across borders. Therefore, there must be **agreement on the choice of law** governing the contractual relationship. (Mulačová et al., 2013)

In addition to contractual relations, certain business practices, representing certain rules that are known and observed in business circles, are respected in trading (Machková, 2010). These can be, for example, practices in ports, trading in certain commodities, or interpreting contracts.

Given that international trade and economic relations are governed by both international and private and public law standards, **international trade law** is defined **as a purposeful set of legal norms from different legal sectors and of different origins that combine their common purpose to regulate legal relations arising in international trade** (Svatoš et al., 2009).

Contracts used in international trade include, for example (Machková et al., 2014; Looney, 2018):

- Purchase Contract
- Dealership Agreement
- Other contracts related to purchase contracts (contract for opening a letter of credit, contract for collection, lease contract)
- Contracts of transport
- Intermediary contracts
- Bilateral agreements

Purchase Contracts in International Trade

The purchase contract is concluded between the seller and the buyer and its content defines **the basic rights and obligations of both parties**. Form, method of closure and differences in legislation may give rise to possible problems and difficulties. For this reason, great attention should be paid to their preparation. When executing a business operation, there is a great risk of ensuring the agreed conditions, in particular the timeliness of delivery, quality and the correct assortment composition on the part of the supplier, but also does not remove the goods or their non-payment. Therefore, payment instruments that are proportionate to the level of risk should also be chosen. Exchange rate risks may also arise. (Mulačova, 2013)

Purchase contracts are concluded in **two stages** (Machková, 2009):

- Submission of the offer - draft purchase contract by the seller, usually in writing, which the buyer accepts (confirmation of the offer)
- Buyer's order and its confirmation by the seller

The purchase contract is a basic contractual relationship whose signature is the culmination of negotiation activities. It is an agreement on **essential attributes** that includes the following particulars (Mulačová, 2013):

- Contracting Parties
- Subject (identification of goods and their quantity, packaging, special requirements, country of origin, EAN marking, etc.)
- Price
- Payment terms and their security
- Delivery time
- **Delivery parity**
- Means of transport

The delivery clauses (parity)

Purchase contracts in international trade usually include delivery parity, which **expresses the obligations of the contracting parties in connection with the delivery and takeover of goods** (Mulačová et al., 2013). The delivery parity determines the obligations of the seller and the buyer related to the delivery and takeover of the goods, in particular (Machková, 2010):

- **method**, **the place and time of delivery** of goods to the purchaser
- the method, place and time of transfer of **expenses and risks** from the seller to the purchaser
- other obligations of the parties in providing **transportation, loading and unloading of goods, accompanying documents, inspection, insurance, customs clearance**, etc.

The delivery parity significantly influences the amount of the price in foreign trade, because it determines what part of the circulation costs associated with the delivery of goods is paid by the seller and what part the buyer. In general, the longer the delivery term, i.e. the greater part of the circulation costs are paid by the seller, the higher the prices may be.

Delivery clauses have arisen in business practice on the basis of business practices, which have often been used inconsistently according to local conditions, thus becoming a brake on the development of international trade. At present, the use of International Interpretation Rules **INCOTERMS** (International Commercial Terms) clearly prevails **worldwide**. Only when trading on the American continent can we exceptionally meet other rules, namely RAFTD (Revised American Foreign Trade Definition). (Machková, 2010)

Trade Terms

The standard rules of reference for the interpretation of the most commonly used trade terms in international trade are **Incoterms**. The basic purpose of the rules is to define how each Incoterm, as agreed in the sales contract, should be dealt with in terms of delivery, risks and costs, and specify the responsibility of the buyer and seller.

When choosing the appropriate terms of delivery, deciding factors (from the seller´s perspective) include (Grath, 2016):

- **The mode of transport** and the transportation route, the buyer and the nature of the goods
- **Standard practice**, if any, in the buyer´s country or any regulation set by the authorities of that country to benefit their own transport or insurance industry
- **Procedures**, where the seller should avoid terms of delivery, which are dependent on obtaining import licences or clearance of goods to countries they cannot properly judge
- **The competitive situation**, where the buyer often suggests their preferred terms of delivery and the seller has to evaluate these terms in relation to the risks involved.

EXPLANATION OF INCOTERMS

Delivery parity issues are governed by possible INCOTERMS clauses. These clauses are **not international treaties**, but have been **developed in practice on the basis of commercial practice** to **facilitate the conclusion of contracts and reduce the risk** of disputes and the uncertainty of differing interpretations of the delivery of clauses in different countries during goods handover, transport, unloading, warehousing or customs clearance. (Mulačova, 2013)

INCOTERMS clauses are not an international agreement and do not apply as an international business practice. They shall be binding only **upon the agreement of the Contracting Parties**. Only after this arrangement do they become part of a specific purchase contract and bind both parties. (Svatoš et al., 2009)

A set of international interpretative rules INCOTERMS is prepared and published by the International Chamber of Commerce in Paris (Machková, 2010). International Chamber of Commerce **defined INCOTERMS as**:

"ICC's Incoterms® rules are the world's essential terms of trade for the sale of goods. Whether you are filing a purchase order, packaging and labelling a shipment for freight transport, or preparing a certificate of origin at a port, the Incoterms® rules are there to guide you. The Incoterms® rules provide specific guidance to individuals participating in the import and export of global trade on a daily basis."

The 2020 terms are now current, making this the sixth version of these rules. Incoterms rules have been issued since 1936.

Content of the third part of the presentation

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1. The role of risk in trade operations
2. Explanation of individual risk types
3. Specification of economic importance and legal Framework of risk insurance
4. Specification of international risk insurance types
5. The role of risk management
6. The risk management proces and the risk matrix

THE ROLE OF RISK IN TRADE OPERATIONS

Risk, as a concept, is defined as **the probability of loss** (Merriam-Webster, 1984).

"***The impact*** *of a* ***currently unknown event*** *on* ***the business*** *and a potential problem*" (Sadgrove, 2015, s. 3).

The risk management standard ISO 31000 defines risk as *"****the effect*** *of* ***uncertainty*** *on* ***objectives****" (ISO 31000).*

There are generally **two basic classification of business risk** (Lambing and Kuehl, 2014; Miles, 2011):

Systematic and non-systematic risk

Endogenous and exogenous risk

The Risk Levels

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1. **Low risk** - the occurrence of a risk is unlikely, and no special or costly measures should be implemented other than standard company policies and procedures. A detailed risk management plan may not be necessary, and risk awareness training may be useful on a scheduled or annual basis.

2. **Medium risk** - it is possible that a risk will occur, and risk mitigation measures should reflect the costs and impacts on the company and the business activities, captured within a basic risk management plan. Annual low-level management training and the establishment of crisis management project groups will be beneficial to the company as part of contingency planning measures.

3. **High risk** - a risk is likely to occur. The company is advised to establish an appropriate budget to develop policies and procedures to counteract the probability of the risk and the subsequent impacts within a detailed risk management plan. Thorough, biannual management training will support the organization in responding to any crisis event more effectively.

4. **Extreme risk** - the risk is certain to occur at some stage of the project activity´s life span. The company should consider whether to continue with the activity or acknowledge the impacts and responses within a detailed risk management plan.

Risks of International Business Transactions

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The numerous risks associated with international business transactions vary depending on the **method of transaction**, such as **trade, licensing, or direct investment**. They will also vary depending on what countries the business parties are **located** and in what country the **transaction is to be performed**. The country where a party is a citizen or national is its home county. If a party is transacting business in a foreign country, then that country is referred to as the host country. The types of risks that an international businessperson faces, and the methods utilized to minimize such risks, will vary from transaction depending on a number of variables. Two of the most fundamental variables are the **identity of the host country** and the **type of transaction**. (DiMatteo, 2016)

In general, the level of risk escalates in the three basic ways of conducting international business, **from exporting-importing to licensing, and from licensing to foreign direct investment**.

A successful international businessperson is sophisticated and able to **recognize risks and take the appropriate precautions.**

EXPLANATION OF INDIVIDUAL RISK TYPES
-international trade

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Pricing Risk

- It is essential for a first-time exporter of goods to include in his price all additional costs of international trade.

Financial Risk

- One of the most important worries of the exporter in international trade is to obtain his payments from the importer. The exporter not only has to check the creditworthiness of the importer, but he also has to check the rules and regulation of foreign country buyers. Due to the problem of balance of payments, some countries may restrict payments in free foreign exchange only or in Asian dollars from the countries that are participating in the Asian Clearing Union. Professional agencies are available today, who provides useful information about the creditworthiness of foreign buyers. The period of trade cycle in international trade is longer as well as the degree of risk is higher in financial matters. Litigation in international trade is a costly process hence the exporter must take prudent decision in choosing the method of receiving payments from the foreign buyers.

Foreign Exchange Fluctuation Risk

- Another risk that requires the international trader´s/exporting company´s attention foreign exchange fluctuations. If the exporter is carrying on trade in Indian rupees and sales proceeds as per government policy comes in free foreign exchange such as dollars, euros or pounds, he has to be immensely careful in taking note of deprecation or appreciation of the Indian rupee. If the rupee appreciates, the exporter´s worry is that he will receive less Indian rupees for his trade transactions and if the rupee depreciates, exporters shall receive more Indian rupees due to the difference in the exchange rate with invoiced currency. → International traders can get their risk covered from authorized foreign currency dealers, through forward exchange cover and future exchange trading.

Country and Customer Risk

- There are risk associated not only with the importer/importing company, but also with the country where he or his business is located. The various risks associated with customer and countries are characterized on the next slide.

Risk of Changing Global Marketplace

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There is liberalization of international trade as there has been significant **reduction in non-tariff barriers.**

The **world is shrinking** but **markets are expanding** as trade barriers are coming down.

Regional trade blocks such as ASEAN, EU, MERCOSUR have **placed advantageous as well as challenging situations** before exporters as nations are giving preferential and free trade benefits to each other.

Following are the new challenges that an exporter has to keep in mind while planning to enter international trade in the rapidly changing global trade regime (Singh, 2009):

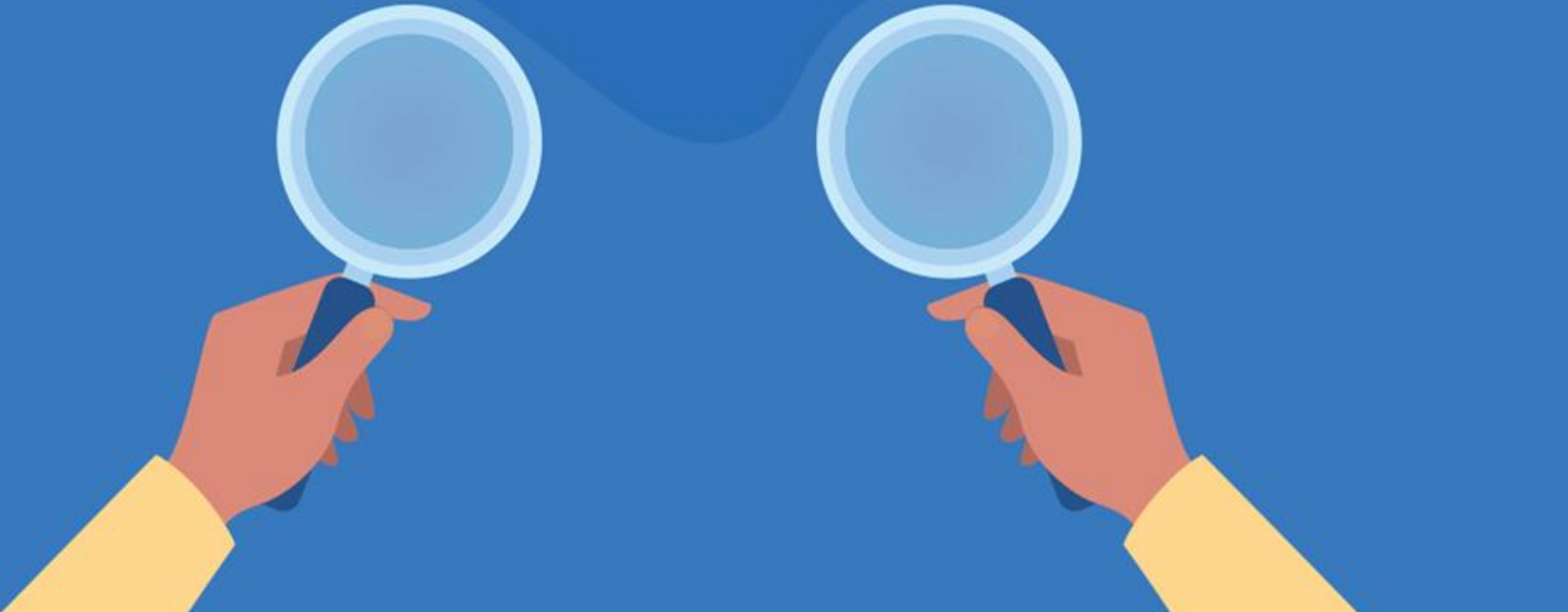
- Increase in global competition
- Increase in social and economic instability
- Change in buying trends

Specific Business Risks

Looking more specifically at the risks that can arise in business operations and their initial impact on the business, **what risks can we mention**?

- **Quality problem** – product recall, customers defect
- **Supply and Demand Risk** – affects profitability, customers defect
- **Environmental pollution –** damage to the environment (plastic bags and accessories used for packing goods)
- **Fire –** harm to humans, loss of goods in warehouse
- **Computer Failure –** inability to take orders, process work or issue invoices; customer defect
- **Marketing risk –** market share falls, revenue drops
- **Fraud –** theft of money, theft of goods
- **Security –** theft of money, assets or plans
- **International trading –** foreign exchange losses, financial losses
- **Political risks –** foreign government appropriates assets; prevents repatriation of profits

RISK ANALYSIS AND RISK MANAGEMENT



Risk analysis of export business operations

Foreign trade operations are characterized by an **increased level of risk**. Risk management is therefore one of the important tasks of a business company. It requires, in particular, **the creation of preventive measures to prevent losses** and, in particular, **the appearance of bad debts**. Preventive measures consist in **identifying risk factors** related to export or entering the foreign market (Svatoš et al., 2009).

The business risk analysis generally relates to two phases.

Pre-Shipment

Post-Shipment

The Specific Examples of Risks of Doing Business Internationally

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Type of Risk	Description	Mitigation of Risks
Foreign Country	Different countries have different risk characteristics	A risk assessment should be performed to determine a foreign country´s political and economic stability
Non-Delivery of Goods	Buyer makes payment, but never receives goods	On-Account transaction, documentary collection transaction, standby letter of credit
Non-Payment (Exporter)	Seller sends goods, but never receives payment	Cash in advance, letter of credit, retention of title, consignment
Language Risk	Misunderstanding of oral communications and written contract	Translation, contract in both languages
Cultural Risk	Risk of offending other party; different negotiation styles	Etiquette, building trust
Currency Risk	Fluctuation, convertibility, and repatriation risks	Payment in own currency, hedging, countertrade
Political Risk	Change in regulations	Political risk insurance, bilateral investment treaties, concession agreement
Legal Risk	Differences in law, enforcement of law, and legal remedies enforceability of judgments	Foreign lawyer, contract remedies, choice of law, arbitration clause
Special Import Laws	Local participation and content requirements, standards	Market selection, use of independent contractors
Transportation Risk	Damage of goods in transit and miss-delivery	Cargo insurance, trade term

INTERNATIONAL TRADE ORGANIZATIONS
-the task

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TEAM WORK

A ONE-POINT ASSIGNMENT!

Each team assigns **one country to another team**. It is entirely up to the team to decide which country they choose for the another team.

Answer the following questions in the context of your assigned country:

- What are the risks of trading with the country?
- How would you mitigate these risks?
- What sources did you get your information from?

Time: **15 minutes** of Information searching + **5 minutes** of formulating answers **+ 10 minutes** of presenting the results to all members

The best team will receive a bonus point.

Type of risk: Foreign Country, Non-Delivery of Goods, Non-Payment, Language Risk, Cultural Risk, Currency Risk, Political Risk, Legal Risk, Special Import Law Risk, Transportation Risk


RISK
INSURANCE

SPECIFICATION OF ECONOMIC IMPORTANCE AND LEGAL FRAMEWORK OF RISK INSURANCE

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Insurance is a financial service that is **based on the transfer of risk to a specialized institution**. This institution takes the risks for consideration and, as part of the infrastructure of the economy, ensures the financial elimination of the negative consequences of contingencies.

The **insurance stabilizes economic subjects**. It is based on the principle of the creation, distribution and use of an insurance fund managed by a special institution - an insurance company. An insurance fund is actually a money reserve fund, which is formed by the so-called insurance method. This means that all stakeholders are involved in its creation, but its distribution is for the benefit of those involved in the incident.

SPECIFICATION OF INTERNATIONAL RISK INSURANCE TYPES

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Marine insurance

-overseas transporters usually assume no responsibility for the merchandise they carry unless the loss is caused by their carelessness. Marine insurance provides protection from loss during shipment of products. This insurance has two types of coverage:

1. **Ocean marine insurance** – protects goods during shipment overseas or while temporarily in port.
2. **Inland marine insurance** – covers the risk of shipping goods on inland waterways, railroad lines, truck lines, and airlines.

Marine insurance is usually sold in three forms with varied coverages (Dlabay and Scott, 2005):

- **Basic coverage** – provides protection from hazards such as sea damage, fires, jettisons, explosions, and hurricanes.
- **Broad coverage** – includes basic coverage plus theft, pilferage, non-delivery, breakage, and leakage.
- **All-risk coverage** – consists of any physical loss or damage due to an external cause, excluding risks associated with war.

As expected, an all-risk policy is the most expensive of the three types since the most coverage is provided. Some losses are not covered by all-risk policies – include improper packing, damage caused by natural properties of a product, and loss caused by delay (such as labour strike). The amount charged for marine insurance is affected by a variety of factors. Premium factors include **the value of the goods**, **the destination**, **the age of the ship**, **the storage location** (on deck or under deck), **the packaging**, and **the size of the shipment**.

Property insurance

Crimes such as burglary, theft, and arson disturb business activities throughout the world. Companies face three main risks as property owners (Dlabay and Scott, 2005):

1. **Loss of real property** – refers to structures permanently attached to land, such as factories, stores, garages, and office buildings. A company´s building and land represent a significant financial investment. Property insurance provides protection for damage or loss of real property. Buildings and structures are insured for loss or damage from fire, lightning, wind, hail, explosion, smoke, vandalism, and crashes or aircraft and motor vehicles.
2. **Loss of personal property** – refers to property not attached to the land. Loss or damage of office furniture, machinery, equipment, and supplies also can be covered by property insurance.
3. **Financial responsibility for injuries or damage** – liability is legal responsibility for the financial cost of someone else´s losses or injuries. Customers, company guests, employees, and others may be injured while on the premises of a business. Or a company representative may accidentally damage the property of others. When any of these occur, the company may be responsible for the financial loss that results from the incident. Quite often legal responsibility is the result of negligence, or failure to take ordinary or reasonable care. An employer may also be held financially responsible for the actions of an employee. Liability insurance protects a company from financial losses due to the actions of its employees.

SPECIFICATION OF INTERNATIONAL RISK INSURANCE TYPES

Political risk insurance

It covers political events, including the direct and indirect actions of host governments that negatively impact investments and are not properly compensated for. The following are the political risks commonly insured by the PRI industry (Dlabay and Scott, 2005):

- **Expropriation** – PRI protects against losses caused by host government actions that may reduce or eliminate ownership or control. It covers outright confiscations, expropriations, and nationalizations, as well as losses resulting from a series of acts that over time have an expropriator effect.
- **Currency inconvertibility and transfer restrictions** – protects against losses arising from an investor´s inability to convert local currency into foreign exchange and to transfer it out of the host country. It also covers excessive delays in acquiring foreign exchange. Typically, this coverage applies to the interruption of interest payments or repatriation of capital or dividends resulting from currency restrictions. It does not cover devaluation risk.
- **Political violence** (war, terrorism, and civil disturbance) – protects against losses resulting from the damage of tangible assets or business interruption caused by war, insurrection, rebellion, revolution, civil war, vandalism, sabotage, civil disturbance, strikes, riots, and terrorism. Coverage usually applies to politically motivated acts.

SPECIFICATION OF INTERNATIONAL RISK INSURANCE TYPES

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Credit risk insurance

One hazard of conducting business in other countries is not receiving payment. Credit risk insurance provides coverage for loss from non-payment of delivered goods. This protection helps reduce the risk of international business activities.

- Credit risk insurance is available through the **Foreign Credit Insurance Association (FCIA), a private association that insures U.S. exporters**. FCIA enables exporters to extend credit to overseas buyers. Credit insurance covers 100 percent of losses due to political reasons, such as war, asset seizure, and currency inconvertibility. This insurance covers up to 95 percent of commercial losses, such as non-payment due to insolvency or default. (Dlabay and Scott, 2005)
- In EU there is the private sector insurers offering short – term domestic and export credit insurance covering “marketable” risk which for them is synonymous with “re-insurable” risk. At the other, there are the **State-owned Export Credit Agencies (ECAs)** providing medium and long-term insurance for the account of the state within the terms of the OECD Arrangement on officially supported export credits.

Risk Management

Risk management is a **complex systematic process of identifying, eliminating or minimizing uncertain events that may affect an entity and controlling them**. The main objective of risk management is to incorporate the effects of risk arising from process variability into human decision making. Risk management also includes anticipating the consequences of these risks and organizing activities so that human, financial and material consequences are as low as possible for the entity. The risk management process is a decision-making process, the critical phase of which is the **choice of an optimal solution**. It is therefore recommended that, for certain events that may have a significant impact on the business or recur, it is advisable to **consider possible crisis scenarios** and to **determine** their **implementation** using **appropriate methods** to change the external environment or internal development within the organization. (Mulačová et al., 2013)

Risk assessment is a critical component in entrepreneurship by means of **exploiting opportunities**, risk must be assessed as a part of the process. (Miles, 2011)

Importantly, scenarios for situations of a certain type include a relatively detailed plan on **how to proceed in that situation,** because risk management aims **to identify risks and eliminate** them **at an early stage** so that we can prevent unwanted events. Risk management is an **important part of strategic management** in any organization. (Mulačová et al., 2013)

THE ROLE OF RISK MANAGEMET

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Risk management is **a discipline for dealing with the organizations´ s risks** (Sadgrove, 2015). Risk management can **enhancing business performance**. The role of risk management in trade operation is following (Reuvid, 2014; Sadgrove, 2015):

- With national economies struggling, stabilizing, and some recovering, risk management has a role to play in **ensuring the health of organizations**; ensuring that whether they be private or public sector, charitable or profit-making, large or small, new or old, they achieve what they have set out to do.
- Risk management must **provide the advice, tools, products and services** that assist an organization with its planning and reporting, feeding into and influencing decisions surrounding resources, priorities and, increasingly, helping to manage expectations.
- Risk management **provides arrangements** through business continuity management **to minimize damage**, **deal with crises** and **recover back to normality**, perhaps even reach a better place.
- Risk management helps a company **avoid cost and disruption.**

The reasons of growing importance of risk management lie, among others, in getting tougher of **legislation** (legislation is more extensive, stringent and the EU now requires companies to carry out risk assessment in health and safety, product liability and finance) and **more expensive insurance** (expensive insurance, audit of insurance company, insurance my not recoup the full amount lost) Sadgrove, 2015.

EXPLANATION OF THE RISK MATRIX PROCESS

In assessing the likelihood of risk occurrence and its impact on business activities, statistical methods can be used, but in practice most decisions are based on the judgment of the company's experts or employees. A very often used analytical technique for risk assessment is the so-called **risk matrix** designed by Klaus Winterling. It is sometimes referred to as a risk map or an aggregate risk matrix. The matrix allows identification of risks according to two parameters (Mulačová et al., 2013):

1. **The probability of risk occurring at time** - categorizing how real and probable the risk actually occurs - the matrix defines three levels of probability - low, medium and high (low probability, probability, very probability)
2. **Impact of risk on the organization** - captures what the impact of risk on the organization may be if the risk occurs - the matrix defines three levels of effect - negative, threatening and devastating (low, medium and high impact). Negative effects have little impact on the organization's strategy and operational activities and are characterized by low concerns of stakeholders. The threatening effects have a moderate impact on the organization's strategy and operational activities and there is a slight concern of stakeholders. The devastating effects are characterized by a significant impact on organizations' strategy and operational activities and a high financial impact, which is of considerable concern to stakeholders.

Presenting The Risk Level 4x4 Risk Matrix

It is **difficult** for people outside the risk field **to quickly understand the multidimensional nature of risk** and the **diverse threats** it can pose to business operations. It is the duty of assessors to work closely with their business partners to show them how risk could impact their success, while **offering solutions**, not barriers, to facilitate business. (Blyth, 2008)

The following basic table can be used by managers **to represent the risk level** (Figure 2). In the following table the risks is assessing in global nature factors. Companies must **assess those factors that may affect it**, whether from an **external or internal environment**, in their assessments.

Figure 2: Representing Risk

		IMPACT			
		Low	Medium	High	Extreme
PROBABILITY	Low	J	I, L	K	
	Medium		G	H	
	High		F	B, C, D, E	
	Extreme				A

Source: adapted of Blyth, 2008 and The Global Risks Landscape 2019

A) Extreme weather events
B) Cyber-attacks
C) Natural disasters
D) Water crises
E) Large-scale involuntary migration
F) Data fraud of theft
G) Failure of national governance
H) Critical information infrastructure breakdown
I) Energy price shock
J) Deflation
K) Failure of financial mechanism or institution
L) State collapse or crisis

INTERNATIONAL TRADE ORGANIZATIONS
-the task

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TEAM WORK

A ONE-POINT ASSIGNMENT!

Imagine you are a team of managers who have decided to represent the level of risk using a **4x4 risk matrix**.

Task development process:

- In a previous task, you identified the risks that may occur when trading with a particular country. Now apply the findings you have identified to the 4x4 risk matrix as input.
- You can also add new risks that you and your team agree on to the risk matrix.
- Based on the impact and probability assessment, place the risks in the appropriate position in the risk matrix. Justify this positioning.

Time: **15 minutes** + **10 minutes** of presenting the results to all members

The best team will receive a bonus point.

Ways to Manage Risk

There are four ways to manage risks and company adopt one of these solutions for each risk, depending on how likely the threat is, and how severe its impact will be (based on risk level assessment – explained in previous lecture). These ways used to be known as the **4Ts as Terminate, Transfer, Treat and Tolerate.** The risk management standard ISO 31000 uses the phrase **risk treatment** to mean any of all of these four actions. These **four ways to manage risks** are specified as (Sadgrove, 2015):

1. Avoid them (Terminate)

-means choosing not to accept the risk. It means decide to stop offering a high-risk service, one that could lead to expensive litigation. Company might choose not to acquire another firm because the risks of its failing are too great or might sell a division that has large peaks and troughs in its profits.

2. Share them (Transfer)

-sharing the risk is also known as transferring or spreading risk. Techniques include Joint venture, redundancy, sub-contracting, outsourcing, dual sourcing, offsetting risk to suppliers, diversification or buying insurance.

3. Accept them (Tolerate)

-a low-impact, low-probability hazard is quite rare, if only because we don´t really notice them. With no shortage of serious risk to manage, company may decide that a risk is within agreed risk tolerances. This will relation to the small risks that happen rarely. Deciding to accept small risks allows company to concentrate on the major ones, and prevents the risk system from becoming a behemoth.

4. Control them (Treat)

-in this area we are talking about the risks that have an impact on trade operations or the probability that they will happen. The standard way of managing these risks is through controls. They can take many forms involving process, practice or policy. The overall aim is to minimize, reduce or control the risk. There are several ways to **classify controls** (specified on the next slide).

The Classification of Risk Management Controls

There are several ways to classify controls. Three common classifications are (Sadgrove, 2015):

A) Preventative, directive or detective controls

1) Preventative controls stop the risk from occurring. This type of controls stop problems before they occur, so they are the best type.
2) Directive controls are usually aimed at getting people to do things. They include policies, procedures and training.

3) Detective controls give feedback, letting staff know whether a system is working properly, or alerting people if a problem has occurred.

Table 4: Examples of preventative, directive and detective controls

Type of risk	Preventative	Directive	Detective
Burglary	Locks	Require staff to close windows when leaving	Intruder alarms, CCTV
Fraud	Numbered order forms, having two people sign cheques	Train people not to give out passwords on the phone	Audit
Hard drive failure	Raid drivers, redundancy, strong password protection	Educate users to watch for data errors occurring	Software to monitor and diagnose drive wear

Sources: adapted from Sadgrove, 2015

B) Physical, management or technical controls

Examples of these controls are:

1) Physical controls: non-slip flooring
2) Management controls: a policy of using protective footwear
3) Technical controls: password-protected access control

C) Manual or automatic controls

1) Manual controls: Audits required someone to do an inspection.

2) Automatic controls: Automated backups which don´t require human interaction (though getting a staff member to check that the backups are working is just as important, and reminds us that there is often more than one control for any process)

THE RISK MANAGEMENT PROCESS

THE RISK MANAGEMENT PROCESS

Risk management is a process of handling risk in a conscious fashion. The following framework present general risk management framework promoted by the Project Management Institute (PMI). There are a number of risk management frameworks that can be pursued beyond the PMI perspective. For example a thoughtful framework has emerged in Australia and is known as the Australia/New Zealand Standard 4360:1999. This framework developed by the Standards Association of Australia, serves as the leading guide to risk management in Australia and New Zealand. Although there are several frameworks, so all pursue the same basic message. They all are predicated on the view that effective risk management requires organizations to plan and deal with risk proactively, identifying risk events, developing strategies to deal with them, then dandling them when they arise. (Frame, 2003)

The risk management framework (continuing on the next slide) (Frame, 2003):

Step 1: **Plan for risk**. Prepare to manage risks consciously. Effective risk management does not occur by accident. It is the result of careful forethought and planning.

Step 2: **Identify risk.** Routinely scan the organization´s internal and external environment to surface risk events that might affect its operations and well-being. Through this process, you develop a good sense of the bad things you might encounter in your projects and operations.

THE RISK MANAGEMENT PROCESS

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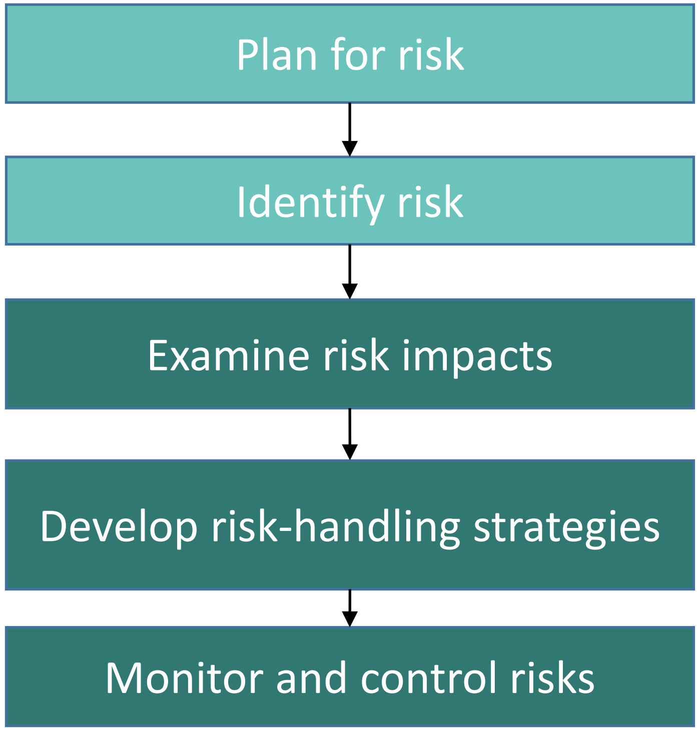
The risk management framework (Frame, 2003):

Step 3: **Examine risk impacts**, both qualitative and quantitative. After you develop a sense of the risk events you might encounter in Step 2, systematically determine the consequences associated with their occurrence. Think through hard-to-measure consequences by means of a qualitative analysis. Model measurable consequences with a quantitative analysis.

Step 4: **Develop risk-handling strategies**. Now that you know what risk events you might encounter (Step2) and the consequences associated with them (Step 3), develop strategies to deal with them.

Step 5: **Monitor and control risks.** As projects and operations are underway, you need to monitor the organization´s risk space to see if untoward events have arisen that need to be handled. If the monitoring effort identifies problems in process, then steps should be taken to control them.



Steps 2 through 4 constitute risk assessment. Together, they comprise an intellectual exercise that allows company to explore its risk space in order to prepare itself to handle the occurrence of untoward events. Step 5 takes company into the realm of action by having a deal with problems that are unfolding. Risk management is the combination of risk assessment and action. (Frame, 2003)

SUMMARY

- Retailers can use to move from purely domestic retailer to international retailer these business methods: **exporting, licensing product brand, licensing process, agents, management contract, franchising, strategic alliance, joint venture, acquisition and establish subsidiary abroad (FDI).**
- The choice of business methods depends on various factors, e.g. cost, **control, uniqueness of the format, financial strength of the firm, local market condition, characteristics of the supply chain, presence of domestic organised retailers, barriers to foreign investments in allied sectors.**
- The most preferred entry routes of global retailers are these methods: **mergers and acquisitions, joint ventures, franchising, wholesale cash-and-carry.**
- The most known barriers in international expansion are **FDI restriction**, **minimum capital** requirement, **joint venture** requirement, **local sourcing** requirement, **limitation on size and number of retail outlets**, restrictions on pricing, advertising, promoting and selling certain products, strong local competition, unfamiliar customers taste, low purchasing power of consumers or poor quality of infrastructure.
- Good knowledge of the target **market economy** is very important in the internationalization of business operations.
- The internationalization of Czech trade is supported by various state organizations, for example **CzechTrade, Czech Export Bank, Export Guarantee and Insurance Corporation, CzechInvest and CzechTourism.**

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SUMMARY

- The providing of trade operations include these four phases: **preparatory phase of business operation, contract phase of business operation, implementation phase of business operation and finalization phase.**
- When prepare and planning of entering foreign market, is important to carry out analyses, e.g. **territorial survey, commercial-political research, commodity survey, competition research, consumer survey, price survey, tax survey.**
- International business negotiation can be divided into **micro and macro level negotiations**. There are **different negotiating customs and protocols** in the business world.
- The outputs of negotiation can be an individual contracts. Contracts in international trade include many various contracts such as **purchase contract, dealership agreement, contracts of transport, intermediary contracts and bilateral agreements.**
- Purchase contracts in international trade usually include **delivery parity**. The most used delivery parity worldwide are **International Interpretation Rules INCOTERMS**.
- INCOTERMS includes **rules for any mode or modes of transport** and **rules for sea and inland waterway transport.**
- Each country differs in the documents required for export, the most used documents are **pro-forma invoice, commercial invoice, packing list, shipping list, bill of lading, certificate of origin and documentary letter of credit.**
- International trade procedures are coordinated by international organizations such as OECD, WTO, IMF, ITC, IMO, CEB and UNEP.

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SUMMARY

- The risk can be defined as **the impact of currently unknown event on the business and a potential problem.**
- Domestic risk in trade operations is mainly related to area of operation which is within the country, providing by the same single currency. The most known risk in domestic business are **natural disasters risk, regulatory and legal risk, socio-political risk, start-up and operating risk, technological risk, market risk, financial risk and economic risk.**
- International risk in trade operations is specific due to difficulties and more risky international environment. Trade operations are providing in multiple currencies. The major risks in international are **financial risk, foreign exchange fluctuation risk, country risk and customer risk.**
- The level of risk escalates from **exporting-importing to licensing, and from licensing to foreign direct investment.**
- The ways of ensuring fulfilment of business obligations can include various possibilities, e.g. **using price-delivery terms to allocate risks and obligations, bank guarantee, commercial means of security in purchasing contracts.**
- The insurance is another way of ensuring fulfilment of business obligations. Insurance classes are divided into three basic groups: **property insurance, liability insurance and personal insurance.**
- The major specific international risk insurance types are **marine insurance** (ocean and inland marine insurance), **property insurance** (loss of real property, loss of personal property and financial responsibility for injuries or damage), **political risk insurance** (expropriation, currency inconvertibility and transfer restrictions, political violence) and **credit risk insurance**.

SUMMARY

- Risk management is a **complex systematic process of identifying, eliminating or minimizing uncertain events that may affect an entity and controlling them.**
- The risk management in trade operation **ensuring the health of organizations**, **provide the advice**, **tools, products and services that assist an organization with its planning and reporting**, provides **arrangements through business continuity management to minimize damage**, **deal with crises** and **recover back to normality** and **avoid cost and disruption**.
- In assessing the likelihood of risk occurrence and its impact on business activities, **statistical methods** can be used. A very often is used of **the risk matrix** for risk assessment.
- **The risk matrix assess the effects of risk on organization and probability of occurrence at given time.**
- The current retail risks drivers are **cyber risk, competition, consumer expectations, compliance and regulations, technology disruption, data and analytics.**
- There are four ways to manage risk: **avoid them** (terminate), **share them** (transfer), accept them (tolerate) and **control them** (treat).
- The classifications of risk management controls is divided into **preventative, directive or detective controls; physical, management or technical controls; and manual or automatic controls.**
- The risk management process is set from these stages: **plan for risk, identify risk, examine risk impacts, develop risk-handling strategies, monitor and control risk.**
- The general risk management policies provide high-level guidelines for managing risks, e. g**. customer satisfaction and retention policy, ownership policy, training policy, information system policy, corporate ethics policy, outsourcing and contract management policy, business continuity policy and insurance policy.**

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