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# Risk Taking Propensity and Firm Internationalisation Process

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**ABSTRACT**

**Objective**: The aim of this paper is to present necessary characteristics of solutions related to risk management in the conditions of high environment turbulence from the perspective of international businesses.

**Research Design & Methods**: The paper is based on extensive literature review, synthesized for preeminent conceptions of risk management within operations undertaken in international environment with its proper specifics.

**Findings:** The paper is divided into four main parts. The first section presents the concept of business internationalisation in general. The dilemmas related to the idea of strategic risk application are discussed in the second passage. It is followed by a discussion on the risk undertaken by firms while entering into international markets. Finally, the paper presents the methods and models of risk management in international markets.

**Implications & Recommendations:** Knowledge of risk management models fosters management focused on survival and development of the firm, including its international growth. The catalogue of formulas for minimizing presence of unfavourable phenomena and events for the company should be enriched by experiences from the area of project management processes and project formulas of business management.

**Contribution & Value Added:** Present research may contribute to the construction of a rational model of the risk management process, in particular in the case of adoption of a development strategy based on the internationalisation.

| | |
|---|---|
| **Article type:** | original literature review |
| **Keywords:** | Internationalisation; risk management; risk taking propensity; strategic risk; international business; business external environment |
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## INTRODUCTION

In the contemporary world, both economic internationalisation and globalisation processes have achieved such a scope that it is impossible to discuss any business issues without its international context. The above mentioned processes are characterized by ever-growing mobility of production factors, goods and services. The international context of a firm means not only the internationalisation as the expansion into foreign markets, but also the internationalisation of managerial processes within a firm. Business internationalisation is also accompanied by technological revolution with fast spreading innovations being one of its aspects. The increasing internationalisation in contemporary globalised economy includes the expansion of local and international companies into new markets. However, the search for formulas of thinking and acting in an innovative strategic aspect requires increasingly sophisticated tools and concepts which, when applied, will enable to optimize business actions in order to survive as well as to grow and develop. Thus, the formula of strategic actions must include elements minimizing an extensive range of threats that arise when firms follow the path of internationalisation. One of such threats seem to be the issue of risk identification and risk monitoring as well as appropriate risk management. Risk becomes an immanent and crucial component of substantively justified sequence of actions that may have some characteristics of arrangement, but also, due to increasing phenomena of environment turbulences and chaotics paradigm (Wach, 2012, p. 61), may have a less structured form, similar to navigating in a kind of "controlled chaos", where this slightly pejorative expression is treated as a specific conceptual category and a positive, desired phenomenon, providing the possibilities of flexible and creative operation (Buła & Fudaliński, 2010).

## MATERIAL AND METHODS

It is assumed that the process of internationalisation and entering international markets involves substantial risks related to possibilities of survival and development of a firm, which results in the need for risk monitoring (in a strategic and operational aspect), in order to minimize it. A vast corpus of knowledge in the field is hereby thoroughly reviewed and synthesized, being the basis for comparative study of strategic risk management in shifting circumstances, referring to the process of internationalisation.

Therefore, this study aims at presentation of international conditions of business operations, in the times of high environment turbulence and at characterizing the solutions related to risk management, which, when known and applied in a firm, may, on one hand, stimulate the organisation's development, and, on the other, be a factor of minimizing the impact of phenomena that may potentially exacerbate a threat to the existence (survival) of the firm.

## LITERATURE REVIEW AND THEORY DEVELOPMENT

### The Concept of Business Internationalisation

The notion of internationalisation is understood as any activities of firms abroad and can be interchangeable with the term of international growth. There are five main theoretic cal streams explaining the phenomenon of business internationalisation (Wach, 2012; 2014b), while three of them may be considered classical (stages approach, resource- ba-

**Table 1. Contemporary theoretical models of business internationalisation**

| Approach | Models | Representatives | Disadvantages | Advantages |
|---|---|---|---|---|
| Stage approach | Uppsala model | J. Johanson and F. Wiedersheim-Paul (1975),<br><br>J. Johanson and J.E. Vahlne (1977) | – No knowledge on external markets;<br>– Uncertainty of managers due to inadequate knowledge;<br>– The presence of the so-called mental distance, meaning an obstacle in the flow of information between the company and the foreign market due to language and cultural differences, various political systems; | – Universalism<br>– Dynamic nature resulting from particular elements of the model which, affecting one another, cause development of the internationalisation process |
| | Holistic models (Finnish) | R. Lupstarinen (1985),<br>J. Larimo (1985),<br>R. Lustarinen and H. Hellman (1993) | – Inadequate level of knowledge on foreign markets | – Passing through subsequent phases of development: preparatory phase, initiation of export activities, then the international operations development phase, in order to finally enter the mature phase – the phase of significant exporters<br>– Dynamic aspect of support taking into consideration diverse needs of support recipients |
| Resource-based approach | Resource, competence, resource-competence models | P. Westhead, M. Wright and D. Ucbasaran (2001), O.N. Toulan (2002) | – Dependence of selection of strategy on competences from the owner/manager | – Numerous variants of strategic activities undertaken due to various combinations of unique resources owned by SMEs |
| Network approach | Network internationalisation theories | J. Johanson and L. G. Mattsson (1987, 1988),<br>H Hakanson and J. Johanson (1992),<br>J. Johanson and F. Wiedersheim-Paul (2009) | – Strategies of global companies may be subject to changes under the effect of various relations in the network | – Functioning of the network system makes it easy for SMEs to overcome barriers resulting, among others, from the size of the company<br>– Improvement in innovation and competitiveness<br>– Gaining additional channels and contacts |
| International enterpreneurship approach | General models of international entrepreneurship | M.Ruzzier, R.D. Hisrich and B. Antonic (2006),<br>H. Etemad (2004),<br>R. Schweizer, J.-E. Vahlne and J. Johanson (2010) | – Despite the growing achievements of international entrepreneurship, they are still non-uniform and poorly formed | – Enterprises entering foreign markets in the initial phase of the organization's life cycle are characterized by competitive advantage resulting from high quality of offered products, often unique |
| | Model of international new ventures (INV) | P.P. McDougall and B.M.Oviatt (1994) | | |
| | Model of born global | G.A. Knight, T K. Madsen and P. Servias (2004),<br>R. McNaughton and J. Bell (2004) | | |
| | Models of accelerated internationalisation | I. Kalinic, C. Forza (2012), N. Hashai, T. Almor (2004) | | |

Source: own extension of Wach (2012, p. 99).

sed view, network approach), international entrepreneurship is not (Table 1). In the theory of international business, internationalisation is characterized most often in a stage perspective, where on the basis of the concept of evolutionary business internationalisation model, it is possible to identify subsequent stages of this process. According to this approach firms, in particular those from SME sector (Wach, 2008), internationalize their business activities by shifting from less to more advanced forms (U-model)[1]. However, the Uppsala model is often criticized (Daszkiewicz & Wach, 2013, pp. 60-61). The resource-based view (RBV) model of internationalisation pays special attention to the potential of resources, especially human resources. Taking them into consideration, it can be assumed that possession of more substantial resources determines greater possibilities of operation on foreign markets. Firm-level internationalisation by cooperation networks (network approach) is a typical example of international enterprises entering the markets in result of existing and the potential relations outside the borders of their native country. The essence of this strategy lies in the use of versatile relations of companies forming a network with various entities with which they are interrelated. It is a process typical of corporations where a significant factor is the parent company, as well as the culture of the country in which a branch is located. It is also important to mention companies that, already from the moment of establishment, join the process of internationalisation, with their missions and strategies based on global markets and recipients.

Internationalisation strategy depends on numerous factors (Wach, 2014a). In economic reality, small and medium-sized enterprises most often choose, in the process of internationalisation, the sequential model, starting their activities initially from export and import, and then expanding the field of their activities (Wach, 2012; Daszkiewicz & Wach, 2012; 2013; 2014). However, in many cases, the companies end their activity at export and import cooperation, as, in their opinion, further activity on foreign markets, would involve excessive risk.

Considering the growing complexity of problems related the process of internationalisation of business activities and a number of coinciding factors, causing increase in the level of complication in conducting activities at the international level and, a need arises to search for tools relating to forecasting, identifying, monitoring and minimizing the risk, which will become pillars of the business management process.

## Strategic Risk Management and Its Dilemmas

There is a dispute, perhaps not substantial, concerning several key issues which are important in risk management. The frameworks of the ongoing polemics include:

[1] In this regard, it is also possible to indicate opinions of polemic nature. The so presented sequence constitutes a certain canon of discussion, which by no means has to mean continuity of these processes, the related sequential nature of stages and activities, quite the opposite, due to ever so often visible trend of discontinuity of changes, the "traditional model" may constitute only a historically treated starting point for analysis of processes related to broadly understood issues of internationalization of business activities and the risks related to this phenomenon – which will be discussed further in the study.

- the dilemma of whether it is possible and, above all, sensible, to apply, in the action practice, planning processes in a strategic aspect, which refer to long-term risk (Terrance, 2014, pp. 49–53; Halal, 2014, pp. 483–484),
- the problem of changes in the environment and the related belief that because of that, there are no actual possibilities to predict future environment conditions and to adapt the organization (Xueli & Lin, 2011, pp. 422-430; Vela-Jiménez, Martínez-Sánchez, Pérez-Pérez & Abella-Garcés, 2014, pp. 915–936),
- the issue of discontinuation of phenomena, processes which significance often has a deterministic effect on the functioning of companies (Teczke, 2014, pp. 63-67; Wach, 2012, pp. 61-62).

Risk can be defined differently depending on the research domain (economics, management, finance). Moreover, it can also be seen at various levels of corporate management (strategic, tactical, operational management) or at different levels of strategic management aggregation (network level, corporate level, business level, functional level), (Daszkiewicz & Wach, 2012, pp. 40-41).

On one hand, from the financial perspective, risk can be defined as a threat or hazard of suffering a loss. In the context of long-term financial decisions, such as investments, risk can be understood also as a lack of confidence with regard to income from investment (Jachna & Sierpińska, 2007, p. 511).

From the etymological point of view (management and business studies), the concept of strategic risk (Buła & Fudaliński, 2013, pp. 41-42) has natural connotations with the notion of strategy and thinking in the categories of activities aimed at a long time horizon. Despite frequent accusations (Al-Turki, 2011, pp. 150-162; Kastberg, 2013, pp. 212-222) as to the limited possibility of formulating objectives and tasks in the long run (towards continuous growth in the dynamics of changes in the environment and often non-extrapolation formulas of their course), it should be stated that, for instance, making no attempts to think and consequently, to act, on the basis of long-term vision of strategic development seems to be a cardinal error. Naturally, it also implies the need for both continuous monitoring of changes taking place and for undertaking corrective actions, which, after all, characterizes the management process and defines its essence, not only in the sphere of business, but also in relation to non-profit organizations (Fudaliński, 2013, pp. 102-103). A similar situation takes place with regard to the need for risk management, both in the strategic dimension (which happens to be stressed relatively rarely), as well as at the operational level (which is present much more often).

The notion of the **strategic risk management** should be understood in this case as a process focused on the long-term perspective, the goals of which are prediction, identification and constant monitoring and correction, by making appropriate decisions, of the situation and events that may have adverse effect (elimination of threats) on the adopted plan of strategic actions. On the other hand, due to diverse areas of activities, strategic risk may refer in its essence to many different areas which, due to growing dynamics of changes, require the use of the strategic risk concepts. On the whole, businesses first formulate the strategy, then analyse risks related to its execution, and finally try to implement a solution that limits or eliminates the identified risks. In this sense, the strategy is defined as a decision-making process, concerning performing actions in the future in order to make subsequent decisions in more favourable conditions (Wereda-Kolasińska, 2011, p. 9).

It should be noted that often it is difficult to draw an indisputable borderline determining the boundaries between operational and strategic risk. However there are some differences, which enable distinguishing these two types of risk (Table 2).

**Table 2. Differences between operational and strategic risk**

| Differentiating criteria / Type of risk | Operational risk | Strategic risk |
|---|---|---|
| **Time horizon** | Short | Long |
| **Characteristic feature** | Current activities | Strategy implementation, strategic planning |
| **Consequences of occurrence** | Negative | Negative or positive |
| **Risk measurement** | Only for the company | For a company and the competition |
| **Scope of possessed information** | High | Small |
| **Possibility of insurance** | It can be insured | It cannot be insured |

Source: own study based on Staniec & Klimczak (2008, p. 37) and Szczerbak (2009, p. 45).

It should be pointed out that operational risk usually has short-term nature, which arises out of current operations of the company; on the other hand, strategic risk has a long-term form and concerns making long-term decisions. While a consequence of the operational risk occurrence may be general losses, in the case of strategic risk there are also potential benefits. Although professional literature presents various views on sources of operational and strategic risk, it is assumed that operational risk is created mostly within the organization, while strategic risk is connected mainly with external factors. Therefore, strategic risk is much more difficult to manage (Figure 1), than operational risk.

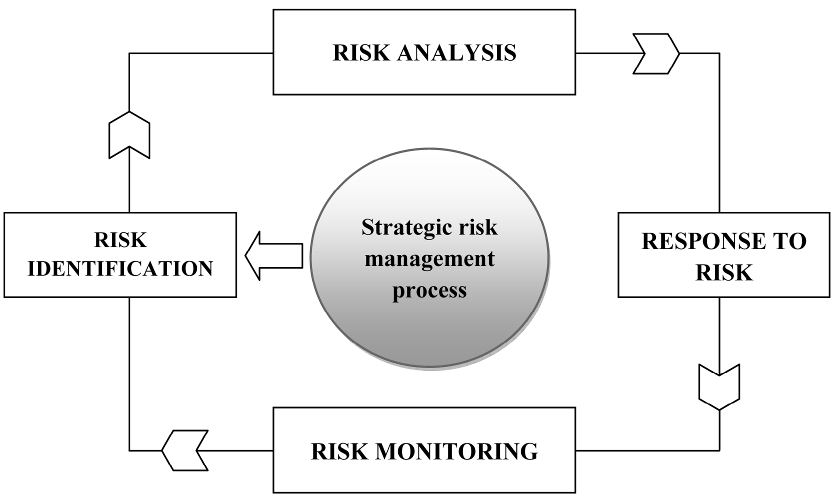


**Figure 1. Strategic risk management cycle**
Source: own study based on AlThani, Merna & Faisal (2008, p. 262).

A key factor influencing the level of risk is the lapse of time, especially with regard to operations conducted in the international aspect. Along with extending time span (one of the determinants of the strategic dimension of risk management) there is growth in uncertainty and likelihood that the expected value will significantly differ from the achieved one. It presents an argument for a detailed approach to this issue, in the context of business development plans and their implementation.

Strategic risk can be defined also as a function or ability of an organisation to cope with changes in the environment, management quality and decision-making process (Wereda-Kolasińska, 2011, p. 60). Factors of strategic risk, focused on the process of internationalisation of the firm, can be divided into external and internal factors. External risk factors affect a firm from the outside, completely independent from its operations on the market. Such factors may include, for instance, actions of competitors in the international dimension, technological progress, changes in interest rates or introduction of unfavourable regulations by hosting countries. Internal risk factors are strictly connected with operations of a company and changes in its structure. Disregarding the above division, the general strategic risk taxonomy is quite complex and includes many risk factors necessary to be analysed also from the perspective of activities at the international level. Wereda-Kolasińska (2011) attempts to present the complex taxonomy of strategic risk in six basic dimensions (Figure 2).


**Figure 2. Strategic risk taxonomy according to Wereda-Kolasińska**
Source: Wereda-Kolasińska (2011, p. 76).

As shown in the general 6-elemnts taxonomy (Figure 2), a factor of strategic risk may refer to not only external or internal changes, but also failure to introduce proper changes in the firm structure or in the technology in needed time, which has particularly high importance in the process of internationalisation. Referring to strategic management as a process of selection of company objectives and strategy, the process of implementation and control over implementation of the established plans, (Urbanowska-Sojkin, 2013, p. 63) recognizes and discusses the following types of strategic risk (Figure 3):

- risk of strategic choices,
- risk of strategic decision implementation,
- risk of forecasting and monitoring changes in the environment and in the company.

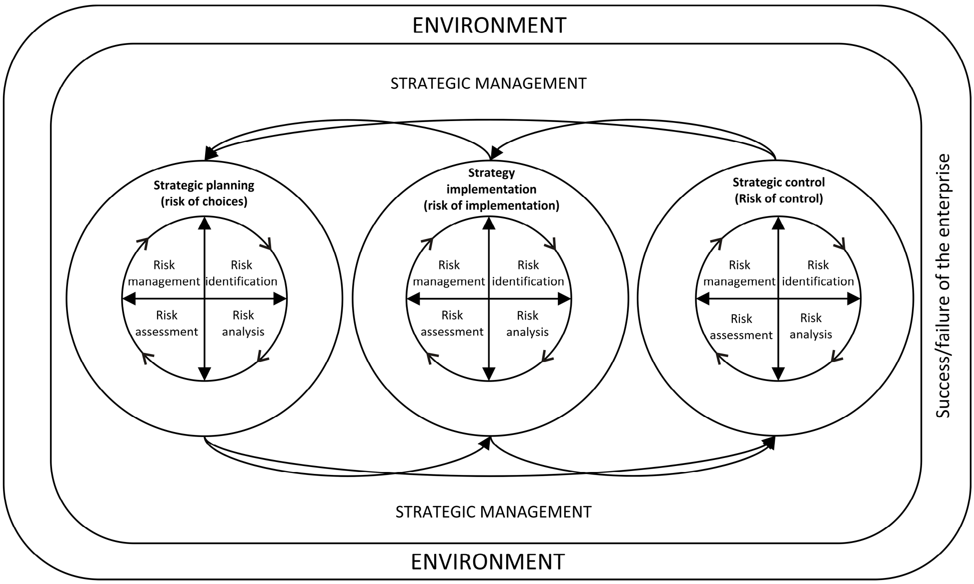


**Figure 3. Model of risk in strategic management according to Urbanowska-Sojkin**
Source: Urbanowska-Sojkin (2013, p. 64).

Such a classification is presented clearly on figure 3 which presents the course of the strategic management process including risk at each stage. In this sense, natural connotations, interferences, and relations between the notion of strategic management and risk management, come to mind. These analogies are an inseparable structure, which, at the same time, taking account of the imperative of application of the risk management concept in the strategic company, makes it possible to achieve the synergy effect from the point of view of praxeological measures determining management quality (Fudaliński, 2013, pp. 67-80).

Having knowledge about the level of importance of strategic risk as a factor creating the possibilities of return on investment or long-term strategic activities, they are to be identified and assessed. This is a part of generally understood risk management, which is defined as a full process of identification, assessment and response to risk and transfer of results of these processes to appropriate parties on time (Andersen, 2009, pp. 352-379).

**Risk Undertaking in International Markets**

In the conditions of market economy, running a business is accompanied by the phenomenon of risk and uncertainty (Vilko, Ritala & Edelmann, 2014, pp. 3-19). Every business, in particular that participating in activities at the international level or aspiring to this, should have at its disposal a reasonable concept of eliminating, or at least limiting the risk occurring in business activities on international markets. Risk is a phenomenon resulting from the fact of decision-making concerning the future. In this context, in particular at times of turbulent changes prevailing today[2], it is extremely difficult to not only predict future conditions of the broadly understood environment in which the company operates and to shapes models of business activities, but also to estimate the

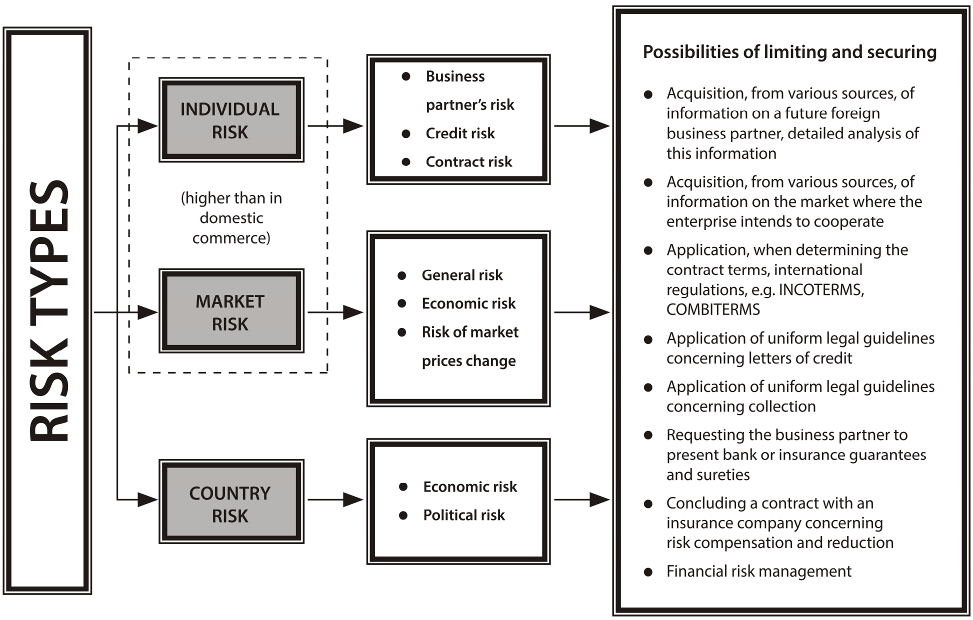


**Figure 4. Types of risks of an internationalised firm and possibilities of limitation and protection**
Source: Bielawska (2006, p. 29).

related risk, especially in the long run. Therefore, the dilemma of shaping strategic aspects of business activities seems to be not only an important issue, but also a problem causing many difficulties, unprecedented so far. When making a particular decision, an entrepreneur has no confidence as to its future results, since, as it was mentioned, risk means a condition in which there is a possibility of loss as compared to the assumed or

[2] Changes in on the international stage are currently particularly intensive. They relate not only to the technological dimension, but their increasing impact is emphasized on political, cultural grounds and the related impacts on the business field (e.g.: war conflicts – Ukraine, Iraq, African countries)

**Table 3. Types of risks occurring in international activities and ways of their limitation**

| Types of risks of an internationalized SME | General ways to minimize risk | Ways of limitation of risk of an internationalized enterprise |
|---|---|---|
| **Individual risk –** resulting from actions of foreign commercial partners - it is possible to distinguish:<br>– Business partners' risk<br>– Credit risk<br>– Contract risk<br><br>**Market risk –** concerning current state of development of social, technical and economic conditions in different countries, it is important to distinguish:<br>– General risk<br>– Business risk<br>– Changes in market prices<br><br>**Country risk – occurring in the event when an independent state is unwilling or unable to fulfil its own payment liabilities.** In research studies, this kind of risk is presented as a result of the impact of both political conditions as well as the country's economic situation, it is possible to distinguish:<br><br>– Economic risk<br>– Political risk<br>– Cultural risk | **Instruments counteracting risk**<br>– prevention instruments (by a proper selection of suppliers and recipients for the purpose of limitation of the so-called business partner's risk, proper manner of managing the purchasing process, stock and receivables and the use of safety standards in conducted activities).<br><br>**Instruments reducing risk effects**<br>– reprisal instruments (instruments for risk suppression, reducing the sizes of the effects of risk upon its occurrence, in the case of suppression of the effects in measurement, these can be fire-resistant doors, instructions of conduct in case of fire at the enterprise);<br>– retention instruments (instruments for retaining risk, financing risk effects, requiring creating economic reasons for covering possible losses);<br>– transfer of risk (insurance as transfer of risk to the insurer in exchange for receipt of an insurance premium, the insurer is obliged to take over the tangible effects of risk).<br>– relevant, professional formulas of management at different levels of the company (e.g.: the purchasing process)<br><br>**Instruments of alternative risk financing**<br>– simultaneous use of risk retention and transfer instruments, aimed at growth in effectiveness of financing the adverse effects of risk occurrence. | – standardization with regard to the company management process[3];<br>– acquisition of information on a potential foreign business partner;<br>– acquisition of necessary information on the market where the company intends to operate;<br>– compliance with international rules (e.g.. INCOTERMS, COMBITERMS) when determining key terms and conditions of the contract;<br>– use of uniform legal guidelines with regard to letters of credit and collection;<br>– requesting the foreign business partner to present bank or insurance guarantees and sureties;<br>– entering into a contract with an insurance company with regard to risk compensation or reduction;<br>– adequate financial risk management. |

Source: own study basedon Wieczorek-Kosmala (2009, pp. 158-163); Bielawska (2006, p. 29) and Fudaliński (2014, pp. 227-246).

the expected condition in a given situation. Risk understood this way is measurable as the likelihood of loss, while its measure is the degree of deviation from the expected result, which is expressed by the value of standard deviation. The sources of risk lie in

[3] Not very often can we encounter understanding for the issues related to standardization of the company management process. This means a possibility of communication with partners from outside the native country at the same level and reduces potential risks resulting from it. It seems to be wrong to excessively stress only the financial dimension of the risk and often in its identification, glorification of this aspect takes place.

events which can be neither foreseen nor prevented, beyond the control of the operating business entity.

International activity is characterized by the accumulation of factors, in which various kinds of risks occur with particular intensification, and risk-generating situations occur most often. As a result, crossing the boundaries of one's own country is an important decision in the functioning of every company, also having a strategic dimension. Then, a collision with a different environment occurs, which, in particular for small and medium enterprises with limited financial resources, may pose a serious challenge. Activity on foreign markets depends on the legal and economic system of the host country. Applicable business law to a significant extent affects the volume and the structure of capital of enterprises, rights of owners or the type of the conducted accounting policy.

Thus, in general, when referring to the risk category in the process of business activity internationalisation, apart from a number of apparently significant issues raised above, it is possible, with certain simplification, to summarize them in a graphic form (Figure 4 and Table 3).

Currently, increasingly often, decisions on expansion to foreign markets (mainly to EU countries) present a possibility of survival and growth of a firm. Especially at times of weakening of the economic situation many countries, by conducting consistent policy of support for small and medium-sized enterprises (SMEs), contribute to the growth in competitiveness among companies from this sector. Enterprises being participants of business transactions in foreign environment can accordingly shape their own risk policy. The firm-level internationalisation, on the one hand, is a phenomenon increasing financial risk, but on the other hand, facilitates undertaking defensive projects. Especially SMEs, by internationalisation of activities, are able to increase the production scale or diversify the target market.

## Methods and Models of Risk Management in International Markets

Identified risk, regardless of its kind, should be assessed according to the above definition in order to respond adequately. There are many risk assessment methods, and the most important include (Buła, 2014, pp. 117-134):

– seven strategic risk assessment pillars,
– Value At Risk (VAR),
– strategic risk assessment matrix,
– strategic risk matrix according to PwC,
– CIMA Strategic Scorecard.

The concept of strategic risk management is used for limiting strategic risk in the firm. In accordance with a previously adopted definition, in the process depiction of this concept, the last stage of risk management process is response to risk, namely the method of its limiting or eliminating. Therefore, we can assume a more extensive definition determining, in the instrumental sense, **strategic risk management** as a set of methods used for identifying, coordinating, modelling and mastering (controlling) most important kinds of risks and their sources in the holistic perspective, concerning a firm as a whole, operating in a specific environment (Wereda-Kolasińska, 2011, p. 87). The postulate of a comprehensive (holistic) approach seems extremely important in this case

(Gorzelany-Dziadkowiec & Fudaliński, 2013, pp. 19-48; Buła, Fudaliński & Gorzelany-Dziadkowiec, 2013, pp. 313-314). It also applies to the use of risks as opportunities for accelerating a long-term business development, as a result of more dynamic adaptation to the market than the competitors. Therefore, risk can be limited twofold (Alcantara & Mitsuhashi, 2013, pp. 580-595; Rashid, 2014, pp. 97-116):

- active, that is affecting the causes, or,
- passive, affecting the effects.

It is extremely important to identify the key risks. In this regard, standards of risk management have been formulated, and these are, among others:

- COSO (The Committee of Sponsoring Organizations of the Threadway Commissions),
- Prince2,
- ISO 31 000:2012.

The above mentioned standards are sets of principles, ensuring preventive protection when applied. In the case of COSO, the standard puts emphasis on management, building formulas of strategic action and the function of related purposefulness. Building corporate strategy considers determination of optimal balance between growth, profits, risk and effective use of resources. On the other hand, Prince2 is a methodology of designing in a controlled environment, where methodology of determining risk formula is based on the risk register (risk tolerance, responsibility for risk, risk ownership). Meanwhile, ISO 31 000:2012 is an international risk management standard. It may be applied by firms of any size, also SMEs, implementing various projects, also in the international aspect. Another important active risk reduction policy

**Table 4. Score assessment of hazards (weights)**

| PROBABILITY | EFFECT | | | | |
|---|---|---|---|---|---|
| | **Minimum** | **Small** | **Medium** | **High** | **Extreme** |
| **Very high 80-100%** | (2.0) | (3.5) | (7.0) | (8.0) | (9.0) |
| **High 60-80%** | (1.5) | (2.0) | (5.0) | (7.0) | (8.0) |
| **Medium 40-60%** | (1.2) | (1.8) | (4.0) | (5.0) | (7.0) |
| **Low 20-40%** | (1.0) | (1.5) | (3.0) | (4.0) | (5.0) |
| **Very low 0-20%** | (0.5) | (1.0) | (1.5) | (3.0) | (4.0) |

Source: Pawlak (2006, p.151).

is its transfer to other entities. It may be expressed in contracting subcontractors to perform risky parts of the investment, assigning the risk and its effects to them, or in creating new entities, whose task is to implement a given investment project at the same time, separating the risk, from the main company[4].

[4] This formula is relatively often encountered in the IT service sector (but not only there).

It is also worth pointing out that quite often, the presently appearing formula, gaining efficacy and efficiency in management, is the project approach to the company management process. Although in the 20th century, the subject most often discussed were tasks for implementation. Their structuring and proper definition made it possible to develop project components, which also include risk management. Adoption of project orientation indeed has significant reference to pragmatism of activities of small and medium enterprises and may standardize the management processes. This is especially important in the process of company internationalisation, and in terms of risk, introduces appropriate tool architecture, where account is taken of the level of probability of occurrence of an event, and its effect is determined (Table 4).

Therefore, from a practical point of view, to be able to realistically assess risk related to a given venture (also the project venture so important in the entrepreneurship theory and practice), it is possible to assume actions focused on (Jedynak & Jedynak, 2014, pp. 75-88):

- gathering a (project) team and conducting a brainstorm in order to estimate hazards present in the project (solution based on internal resources of the company),
- appointing an independent group of experts (the composition of the group can be based on employees of a given company and external experts), who will indicate sources of risk within a particular project and might carry out its evaluation (focus on mixed resources – internal and external),
- employing a specialized external entity (consulting company) for risk assessment (use of external entities).

Qualitative risk analysis focuses on examining, in a descriptive manner, all risk factors in order to show their various features and their physical impact on the project. The methods used in this respect include, among others (Lock, 2009, pp. 58-59):

- fault-tree analysis and Ishikawa fishbone,
- failure, mode and effect analysis (FMEA).

The issues of modelling in the corporate management process have a relatively long tradition, and the main function of this process is formulating, on a diverse level of detail, a description of reality and designing a certain catalogue of activities. In a broad sense, modelling means a methodological concept for solving problems, which assumes the use of the model as a research tool. Management based on a modelling is a process for gathering and processing information, leading to preparing models of objects, which meet the specified conditions, i.e. capable of providing information on a managed object. We can distinguish two basic standpoints in terms of positioning the model in the organization design process. The first one assumes that development of a model finalizes diagnosis of the object and precedes its test, the other one says that development of a model concludes the organizing process and precedes the implementation and operation stage. However, not going into excessive divagations in this respect, it should be stated that also in the field of risk management there are some model solutions, within which we can refer to both standardization of some solutions and different opinions on other issues.

In risk management there are several standard models established by organizations involved in issues of risk management. In general, in this area, we can enumerate three suggestions (Premuroso & Houmes, 2012, pp. 26-48; FERMA 2014):

- FERMA – risk management standard prepared by the Federation of European Risk Management Associations,
- COSO II (mentioned before) – Corporate risk management – integrated framework structure prepared by COSO II – The Committee of Sponsoring Organizations of the Tradeway Commission,
- AS/NZS 4360: 2004 – Australian and New Zealand risk management standards.

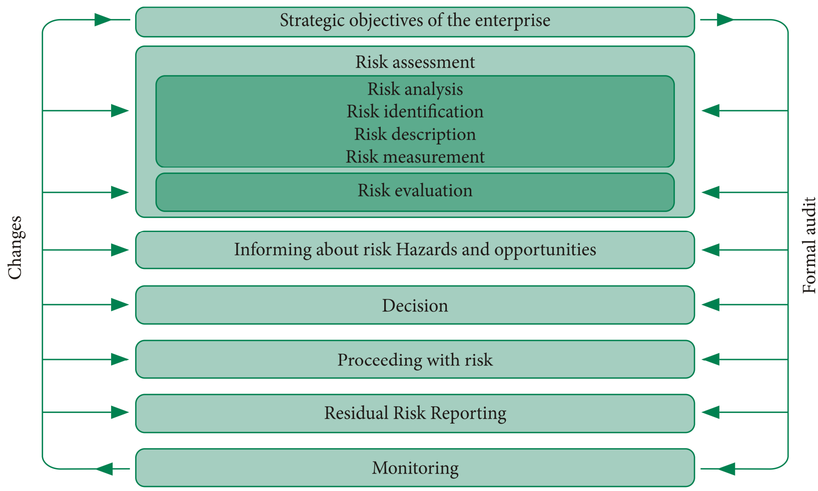


**Figure 5. Process Scheme of Risk Management Standard according to FERMA**
Source: FERMA (2014).

The Federation of European Risk Management Associations (FERMA), is an institution associating people and companies involved in risk management. FERMA assumes that a shift from strategic assumptions to tactical and operational ones should entail responsibility of the management and employees involved in this management. Promoting effectiveness should proceed at each level of the organization, and effectiveness can be obtained by improving the process of decision making, specification of priorities, the degree of uncertainty and possibility of unwanted events (Fałek, 2011, p. 8). The main axis of the process includes nine steps (Figure 5) – starting from determination of strategic objectives, actions related to risk assessment, up to response to risk and its monitoring. Here, it seems important to pay attention to the meaning of internal audit, basically at all stages of the risk management process and the necessity for changes related thereto. FERMA presents ways of describing risks and introduces the scale of probability of their occurrence, as well as the effects, which may result from external and internal reasons (FERMA, 2002, p. 3). Standards of FERMA are quite universal, demonstrating components of the management process and the ways to specify sample points of reference of the estimated risk. It enables adaptation of the solution almost in any organization, although this requires knowledge and search for company specific solutions.

A slightly different solution is the American COSO II standard. COSO is a private organisation, aimed at improving the quality of financial reports, effective control of organisations from within or controlling corporate governance. In COSO II risk management means a process which is to identify potential events having negative impact on the company, and the risk maintained within the agreed limits should ensure achievement of objectives (Fałek, 2011, p. 6). COSO II is a three-dimensional concept presented in the form of a cube (Figure 6).

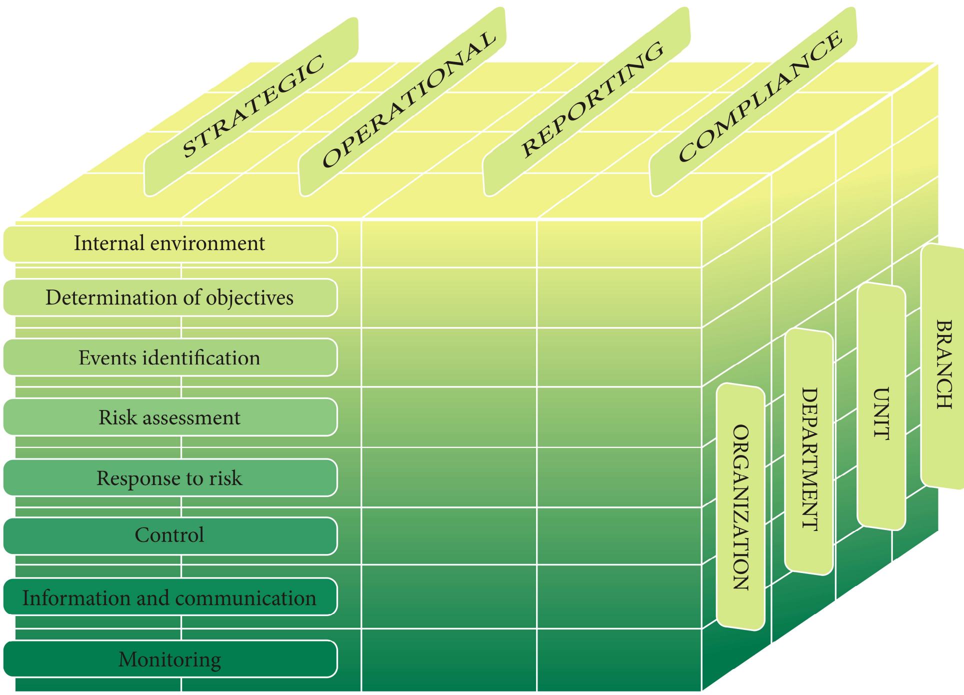


**Figure 6. Process Scheme of Corporate Risk Management according to COSMO II**
Source: COSO (2014).

The way of presenting the risk management process in COSO II seems to be comprehensive and very detailed. This standard introduces much bureaucracy and does not yield too much possibilities of free interpretation. However, this can favourably affect business management. Last but not least, there is the Australian-New Zealand AS/NZS risk management standard (Figure 7), extended in relation to other solutions by monitoring and verification and simultaneously, communication and consultations, which occur at each of the five steps.

The presented and discussed basic risk management standards in any business draw attention to the fact that there is some naturally developed formula (like in other domains and disciplines of knowledge), determined mainly by differences not only related to geographic location, but based, to a large extent, on cultural differences.

Consequently, referring to the company internationalisation process, we can speak of the attempt of adaptation of solutions included in these standards and models in the originally proposed form, as well as the possibility of construction, on this basis, of own solutions, based, however, on some already developed forms. Alternatively, knowing these proposals, we can attempt to formulate an original risk management model, adapted to the specific nature of the firm and the stage of its development (corporate life cycle).

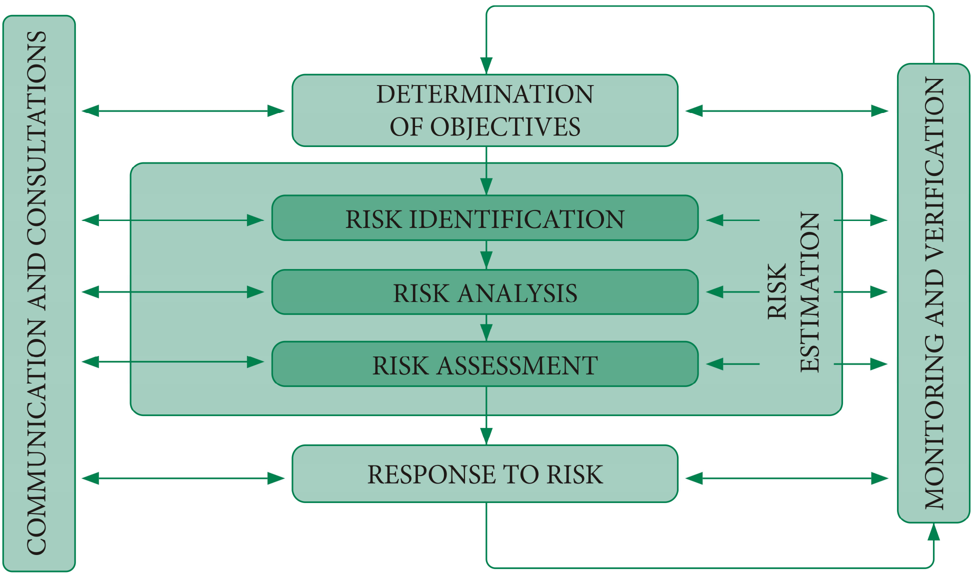


**Figure 7.** **Process Scheme of risk management according to AS/NZS**
Source: (AS/NZS 4360: 2004).

## CONCLUSIONS

Taking a synthetic approach to the complex issues of risk management in the process of internationalisation of business activity, taking into account both raised and signalled problems, the following conclusions may be drawn:

- knowledge of risk management models fosters management focused on survival and development of the firm, including its international growth,
- models of risk management process simplify reality, which is their defect, but also assist in risk reduction,
- selection of the model is dependent on the specific nature of the firm's activity,
- the existing model solutions with regard to risk management do not constitute a closed catalogue, therefore, they may and should be not only adapted, but it is also necessary to approach it creatively by modification of models and their adaptation to the needs of the company,
- use of international standards for the risk management process, is, in particular in the process of its internationalisation, a favourable and desirable managerial help,

- assuming that management and business studies are of reactive nature and make it possible to seek desired solutions with regard to the already existing events, it is also possible, to act proactively, minimizing the risk of potentially negative events,
- the risk management process is a dynamic phenomenon and requires continuous work expenditure correlated with diagnosing changes in the internal and broadly understood external environment,
- the catalogue of formulas of possibilities to minimize the presence of unfavourable phenomena and events for the company should be enriched also by experiences from project management process and project formulas of business management,
- the process of internationalisation of the company's activities does not have to proceed and most often does not proceed in the model perspective, and its shape may have the complex form and may not be based on a simple extrapolation formula
- the course of the process of internationalisation shows sometimes the presence of discontinuity, especially with regard to some, selected sectors of the so-called high technologies.

Consideration of the above statements may contribute to the construction of a rational model of the risk management process, in particular in the case of the development strategy based on internationalisation of business activities.

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