Managing Export Risks

Export Risk Management Guidelines

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SWITZERLAND GLOBAL ENTERPRISE

PostFinance

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Foreword

Foreign trade comes with opportunities and risks. Small and medium-sized companies develop foreign markets mainly with an eye to the opportunities and engage in only limited management of the associated risks. They justify this by saying that they have neither the necessary resources nor the experience required to do this.

For Switzerland Global Enterprise (formerly Osec) and PostFinance this was an opportunity to work together with the Universities of Applied Sciences in Chur and Fribourg on submitting a project to the Federal Office for Innovation (CTI). Project aim: to develop a tool capable of supporting companies with limited resources in their management of export risks.

These guidelines are one outcome of the project. Used together with the simple xRisk tool, they help companies to make a better assessment of the risks arising from export business. The tool can be obtained free of charge over the internet from Switzerland Global Enterprise, PostFinance, the University of Applied Sciences in Chur and the School of Management in Fribourg.

Success with foreign trade doesn’t come as a matter of course – it is generally the fruit of hard work. This makes it all the more important to take the right steps to achieve these successes in the first place. Switzerland Global Enterprise supplies professional advisers to companies seeking to open up their target markets. The support they get from PostFinance, a leading finance institute dealing with international payment transactions, gives them a solid basis on which to build.

We wish you every success with your foreign trade and look forward to your feedback, ideas and suggestions.

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1. The essentials in brief

The global financial and economic crisis has made clear to many Swiss SMEs that the risk has increased in the exporting business. Currency losses reduce margins in sales to foreign customers. Economic downturns weaken revenues in foreign markets. Unrest and strikes impede the distribution of products. Foreign competitors copy proprietary technologies. Floods and storms delay transportation.

These are typical examples of risks faced by Swiss companies in the exporting business. The question is how to handle such risks in order to keep them in check and not threaten the company. A study supported by the Commission for Technology and Innovation (CTI) has investigated this question. It probed the ways in which internationally experienced Swiss SMEs handle export risks. The insights gleaned from this study are summarised in these guidelines.

They show that five steps are involved in the process of export risk management. The first step is to determine the export business ventures that are critical for the company. In the second step, these are analysed with regard to the gains and losses that can be expected. The third step is to plot them in a risk matrix which reveals to what extent the company is exposed to risk through export business taken as a whole. The fourth step is to take action to hedge against these critical risks. The fifth is monitoring these and adapting management action if the risk potentials for the company change.

A key feature of internationally experienced companies is that they address a broad range of risk types in their export decision-making. They carefully compare and contrast the opportunities and risks of the export business ventures and base their decisions on up-to-date information. They institutionalise risk management in the company and familiarise their staff with risk potential handling techniques.

These guidelines provide a detailed insight into the ways in which internationally experienced companies deal with export risks and act as a tool for SMEs to use for their risk management. Major support for these guidelines was given by the following business partners: Extramet AG, Contrinex AG, Rieter Machine Works Ltd, Switzerland Global Enterprise and PostFinance. We are grateful for the commitment and expertise which they contributed to the project.

The next crisis is definitely on its way. The important thing is to be ready for it in time.

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2. Mounting risks in international business

The past twenty years have witnessed a surge of internationalisation in Swiss business as a result of globalisation. During this period, exports and imports have advanced far more strongly than gross domestic product (see Figure 1). Today, Switzerland earns more than every second franc abroad (Neff 2011).

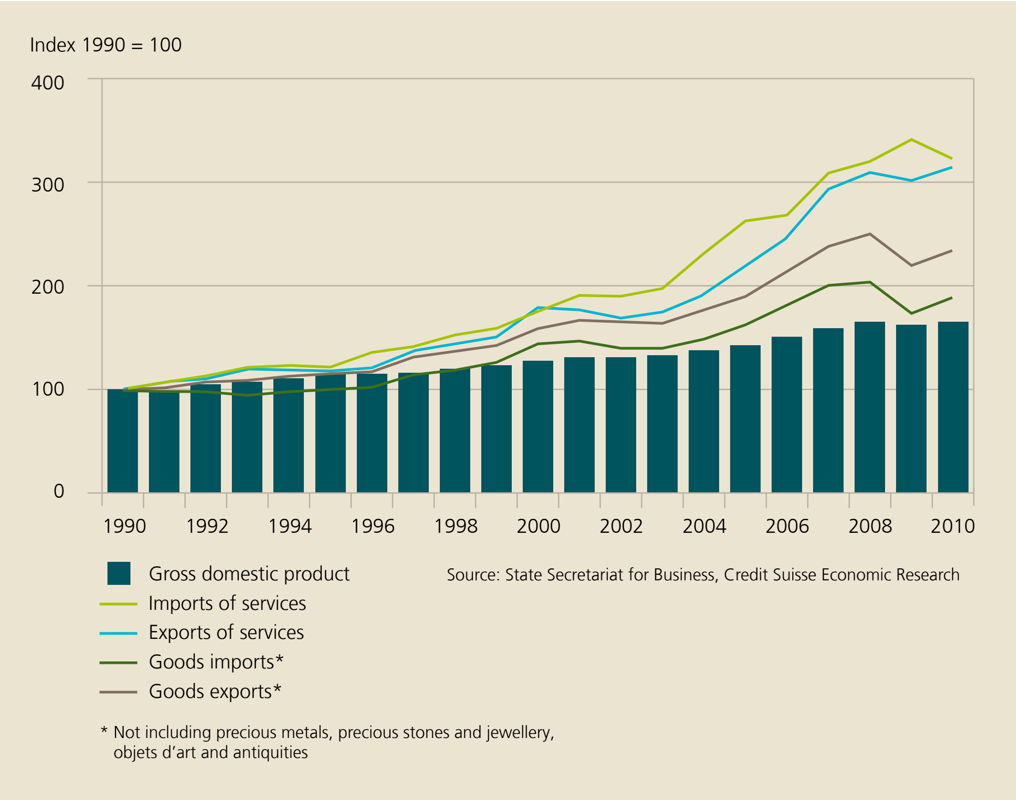

Figure 1: Gross domestic product, Swiss Imports and Exports, 1990–2010

However, the global financial and economic crisis and the accompanying downturns in international trade from the end of 2008 also show how severely unanticipated changes in the external environment can impact on the Swiss export business. In 2009 goods exports shrank compared with the previous year by a nominal 12%. Many exporting companies were forced to shorten working hours and lay off staff. It is true that Swiss foreign trade recovered relatively quickly compared with previous crises and the economies in other countries. Still, this economic downturn opened everyone's eyes to the sharp increase in the risks faced by Swiss export business (Neff 2011, see Figure 2).

It is not just major corporations that are affected. Increasingly, small and medium-sized companies are being hit, despite their finding it easier and easier to operate internationally thanks to falling transportation costs, plummeting communications costs and the integration and liberalisation of economic areas.

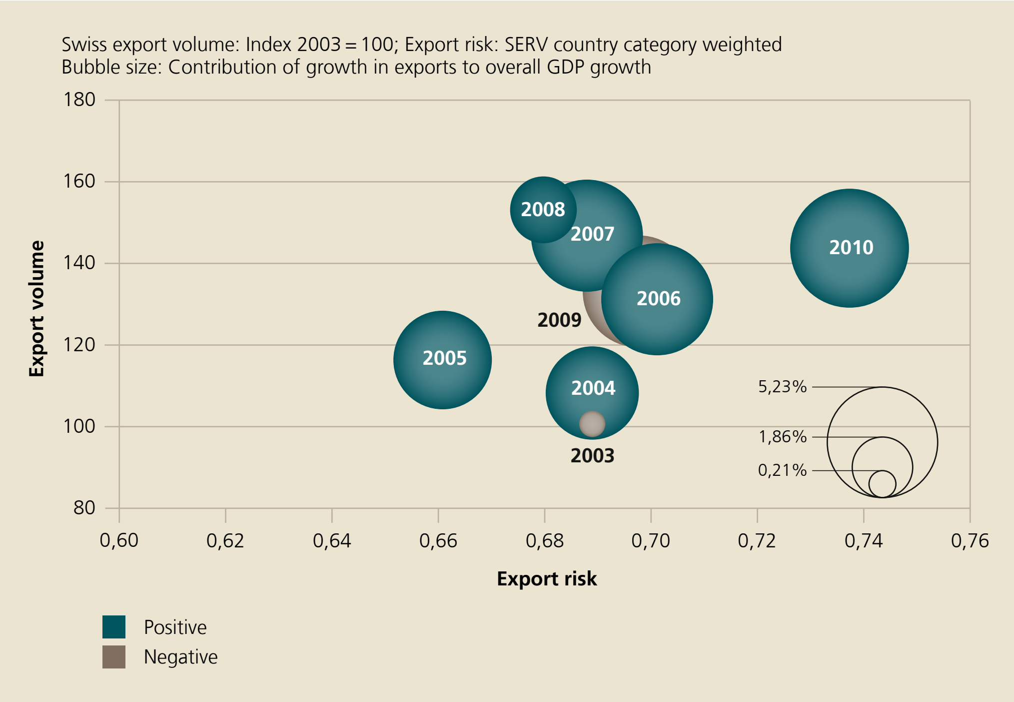

Figure 2: Export volume versus export risks (Neff 2011)

SMEs generally display an entrepreneurial approach to internationalisation and mainly address the opportunities posed by the development of foreign markets while frequently neglecting the risks in internationalisation. According to a study by the Fribourg School of Management, fewer than 50% of Swiss exporting SMEs run strategic risk management. Only 39% collect creditworthiness information, 27% hedge against currency risks, 17% work with letters of credit, 16% make country analyses and only 3% guard against interest rate fluctuations (Baldegger et al. 2011, see Figure 3).

But, particularly for SMEs, neglecting export risks is dangerous because such companies are generally weakly diversified and cannot offset setbacks in one sales market by successes in other markets. They have fewer resources than major corporations to make up for losses (Schulz/Welge 2006) and are faced with the risk of insolvency much faster.

In the past decade, the statutory control of risk management has been tightened considerably (see the Swiss Code of Obligations [OR] Art. 663b, OR Art. 728a, OR Art. 728b). Public limited companies, limited liability companies, limited partnerships with shares, cooperative credit associations, franchised cooperative insurance companies and foundations running a business on commercial principles are required to carry out an annual risk assessment and attach a report on it to their annual accounts. Larger companies subject to regular auditing must also introduce an inter-nal control system and record how the control mechanisms are determined with relation to accounting.

Hence, a study funded by the Commission for Technology and Innovation (CTI) has addressed the subject of export risk, focussing mainly on small and medium-sized companies.

3. Study on export risk management by SMEs

The aim of the study was to understand how internationally successful companies handle export risks and how they identify, analyse and manage relevant risks. For this purpose, 28 Swiss SMEs operating internationally in the processing industry were surveyed on their handling of export risks. The companies were located in the German and Western parts of Switzerland and had sales with a high proportion of export business. The random sample contained companies founded internationally and some which pushed forward their internationalisation step by step. Some of the companies displayed a broad geographical diversification whilst others focussed on only a few target markets. Some were public companies, others were family-owned. Both independent companies and companies forming part of a group were questioned. The managements differed as to age, international experience and nationality. The interviews were targeted at the individuals responsible for export business – in most cases these were managing directors or export managers. The interviews were transcribed and evaluated using NVivo.

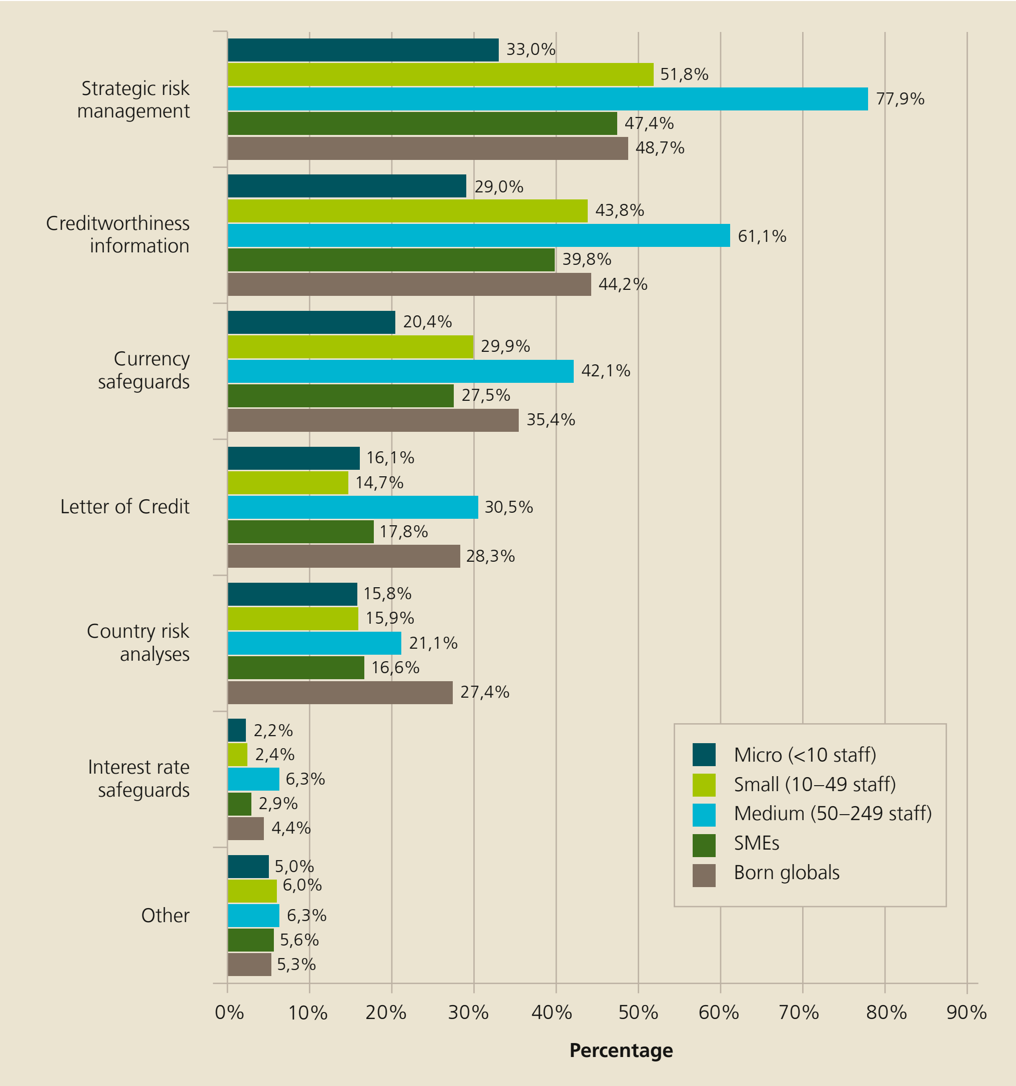

Figure 3: Prevalence of risk management (Baldegger et al. 2011)

4. Risks in export business

4.1 Definition of export risk

Risk is defined in commercial and business literature as an uncertain event that may impact negatively on the achievement of goals (see Ojasalo 2009). Exports are goods/services which a company supplies to customers abroad, so export risks are understood as events which, with a certain degree of probability, will adversely affect the success of foreign business.

4.2 Types of export risks

In the qualitative study, the persons responsible for exports were asked about the types of risks their companies faced in export business. The findings displayed in the figure below (see Figure 4) show that it is mainly economic risks that concern the companies (see Miller 1992).

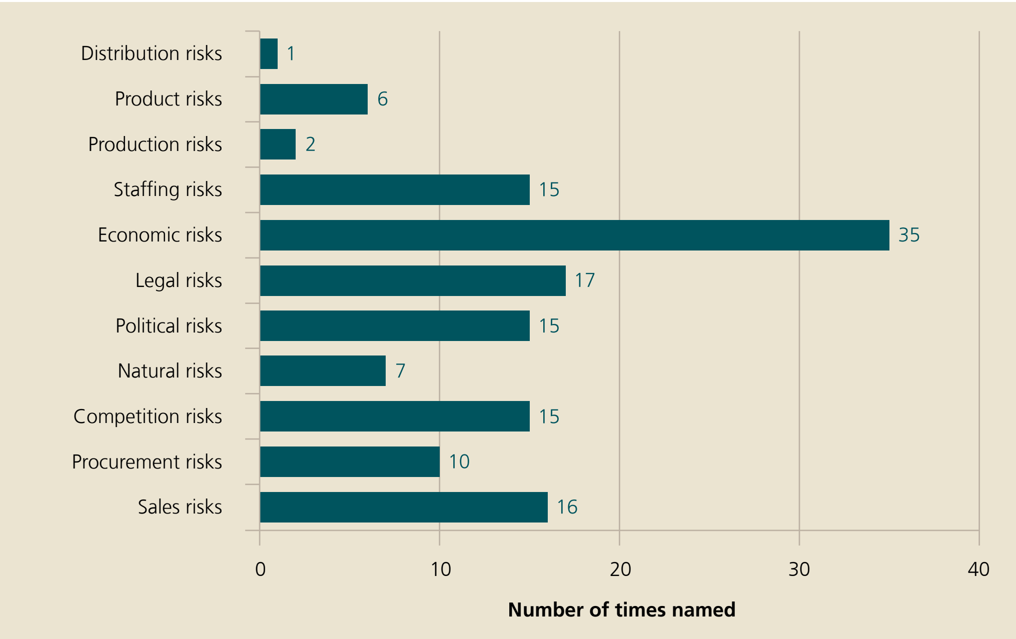

Figure 4: Risk types in export business

4.2.1 Economic risks

Economic risks include currency losses. These occur if the currency in the home market strengthens in comparison with the currencies in the target markets, which reduces the value of earnings from foreign business. For example, an export manager of one of the companies surveyed said, *"We pay the salaries of our staff in Swiss francs. The customers pay in Euros. Because of the current strength of the Swiss franc, we take a big margin loss."*

Inflation in foreign markets can have a similar effect if it leads to devaluation of the currencies concerned. Recessions in foreign markets and an increase in state indebtedness can cause demand for the company's products to collapse. On this subject, one company thought, *"Public finances in Spain and Italy are tight. Less is being invested in infrastructure, which for us means a drop in demand for our products."*

A shortage of foreign exchange or obstructions to foreign currency transfers can hamper the processing of transactions with customers abroad and result in the company not receiving the money for products it has delivered. Here is a representative view of one export manager, *"In Vietnam, there is a shortage of foreign exchange. Customers are no longer able to pay for plant from abroad and so order less."*

Increases in customs dues and taxes can raise the prices of products on foreign markets and impair the international competitiveness of the company, as the following comment shows, *"Argentina imposes new import duties to protect domestic producers and make the products of foreign suppliers more expensive."*

4.2.2 Legal risks

Legal risks arise in export business because of the potential for foreign countries to change their product regulations and so make it necessary to make expensive product adjustments or obtain new licences. One company had the following experience, *"Each country has different regulations for medical-technical devices. For example, in France products have to display a special number, which actually makes no sense. It is extremely difficult to come by the knowledge for these regulations in the various countries and then implement them for your own product."*

Risks also arise through uncertainty about the law. This complicates the enforcement of agreements with foreign customers, as the following statement shows, *"For a small company, it is difficult to enforce delivery agreements in markets a long way away. You need lawyers and translators on the spot and you have to register in the country as a company. The cost of this is often greater than the amount in dispute and so you have to climb down."*

Corruption in target markets can lead to breaches of the law by staff and damage the company's image, *"Years ago, we had a case of corruption in Brazil. We had to cancel the agreement with the representative concerned. This caused a great deal of uproar, massive lawyers' fees and put us right back to square one as regards opening up the market."*

4.2.3 Sales risks

Sales risks include the danger that customer needs might change, with the company being too slow to recognise this and so forfeit market share. One of the companies surveyed had experienced the following, *"There is a very big risk that the foreign representatives inform the home company with too little and too late about changed customer needs, leaving the company lagging behind and missing trends."*

Distribution partners can fall by the wayside, with the loss of existing customer relations. A company's own product may be overtaken by the technological innovations of another company, as happened to one metal processor, *"We produce sheet metal parts for use in aircraft manufacture. However, aircraft construction now relies more and more on carbon fibre reinforced plastics instead of sheet metal. We can detect this substitution in our sales figures."*

Eventually, a del credere risk emerges. This is often greater in foreign markets than in the home market because outstanding customer payments are harder to collect and the payment culture is poorer than in the home market, *"There are very different payment cultures in our foreign markets and in Africa it is now practically impossible to collect outstanding payments."*

4.2.4 Political risks

Political risks cover disturbances, strikes and conflicts which paralyse the business life of a country, cause sales to plummet and endanger staff. This is the experience of one company, *"The political situation in Nigeria is so hazardous that you cannot move around freely in public. Our customers pick us up at the airport in old, battered cars and they keep watch on us all the time."*

Embargos can make it impossible to deliver products to states such as Iran, *"We are one of the few companies that still deliver products to Iran and we can hardly find a bank still willing to handle the payment transaction."*

Nationalisations can also cause companies to lose branches or customer relations in foreign markets.

In foreign trade you constantly have to expect the unexpected. Copyright: kldy

4.2.5 Competition risks

The companies interviewed regarded the greatest competition risk in export business to be the copying of their own products or parts of products by foreign competitors. These competitors escape the expense and labour of development and often produce at lower costs. This puts pressure on prices in the foreign market and reduces margins for the exporting company. One of the export managers interviewed put it like this, *"Foreign competitors get our product, take it apart and copy it, with lower costs. All we can do is to try and beat them regarding service and advice."*

Other competition risks consist in the loss of expertise through a representative to competitors, in new competitors entering the market or through your own small company being taken over by a major competitor, as happened to the following entrepreneur, *"Major competitors are starting to operate in our niche markets because there is more growth potential there. They lavish larger budgets on publicity and better salaries, so bang go our market shares and good staff."*

4.2.6 Staffing risks

First and foremost among the staffing risks quoted by the companies interviewed was the loss of qualified staff, who often feel less loyalty to the company in foreign business than in the home market. This is what one company had to say, *"It is not easy to find well qualified staff with exporting experience. If we lose such staff it is hard to replace them."*

It is often more difficult to keep track of staff in distant markets than it is at home. The distance is open to exploitation, with staff feathering their nests through trickery, *"We had a representative for our products in Brazil. He tripled the agreed prices and shared the profit with the purchasers of his customers. When the facts leaked out I no longer dared show my face in the place."*

4.2.7 Product risks

Product risks occur in export business if products have to meet widely diverging needs and operate under greatly differing conditions. Climatic conditions and how the product is treated can have a major impact on its functions. Even so, the company has to guarantee that it will work perfectly for the customer and assume responsibility if this is not the case. Malfunctioning products may need replacing or repairing locally or the situation may well invoke the company's product liability, appreciably shrinking the success of the foreign business venture. One manufacturer of textile machines had this to say on the subject, *"We work with natural products which respond to warmth and humidity. Guaranteeing that these products will work under a wide variety of conditions presents us with a major challenge."*

4.2.8 Natural risks

The companies interviewed only occasionally touched on natural risks in export business. If they were mentioned, then earthquakes, epidemics, volcanic eruptions, floods, landslides and storms were cited as events that could hamper the economy in a foreign market, slash demand, delay the transportation of products or make it impossible for staff to travel to the markets affected, *"We dispatch almost 100% of our products via courier. If heavy snowfalls or volcanic ash prevent planes from flying, this delays our deliveries and creates customer dissatisfaction."*

4.2.9 Distribution risks

Distribution risks were a further type of risk rarely mentioned by the companies. The transportation of goods can be delayed by protracted customs formalities or incomplete documentation accompanying deliveries. Goods can be damaged during transportation and go astray. Shipments may be faulty and incomplete. All this creates additional costs and harms the reputation of an exporting company.

4.3 Risk awareness

The international nature of the business creates opportunities. However, for small and medium-sized companies in particular this comes with considerable risks. It is important to compare and contrast opportunities and risks and only engage in the business ventures where the opportunities are greater than the associated risks.

Risks are often wrongly assessed. People tend to overestimate risks that they can actually imagine specifically whereas general, unspecific risks are underestimated.
Further important points:

- We judge events more positively if we have already invested time and money in them
- We overestimate the likelihood of pleasant events happening and underestimate the likelihood of unpleasant occurrences
- We weight opportunities and risks higher if they lie in the near future and discount results too much that are still some way off
- We overestimate the personal influence we have over how and whether events will happen and indulge ourselves with the illusion that we are in control
- We may correct judgments we have already made regarding risks, but only inadequately, even if new information on the potential harm or likelihood of occurrence emerges (Gleissner 2011)

These distorted perceptions of risk create the danger that companies wrongly assess export risks, leading them to make poor decisions on internationalisation. It is possible that exporters underestimate risks to the company in comparison with risks to the environment, or class risks in foreign markets too highly and allow their perception of risk to be coloured by their attitude to an export project. It seems to be all the more important for companies to approach the task of evaluating opportunities and risks in export business systematically and as objectively as possible.

The survey of internationally experienced companies shows that they have developed a systematic approach to managing export risks, as is set out below.

5. Management of export risks

The export risk management process consists of five steps which have to be gone through again and again. It starts with choosing the examples of export business that ought to be covered by risk management. The business ventures selected are then analysed in terms of opportunities and risks and plotted in a risk matrix. This matrix illustrates the whole of the company's exposure to risk and forms the basis on which the need for risk management measures will be determined. The last step in the process consists in monitoring over time the risks classed as critical (for this, see also Ojasalo 2009).

Figure 5: Export risk management process

The Excel-based tool xRisk supports companies as they implement the export risk management process. It enables assessment of the export business ventures with regard to the anticipated profits and losses and refers to sources of information on how to assess export risks. It also makes it easier for a company to judge its overall risk exposure. The tool can be obtained free of charge from the internet addresses listed in the Legal Notices at the beginning of this document.

5.1 Preselection of critical export business types

Before any analysis of export business ventures can be made, the company must decide what it understands by 'export business'. Export business can be defined in terms of products, customers or markets. A company processing major projects for customers in foreign markets will call these projects 'export business'. Companies selling large numbers of standardised products through distribution partners abroad will define these partnerships as export business. Companies selling small amounts of products in a large number of foreign markets may regard these markets as export business.

Once the export business ventures are defined, the company must then decide which of these activities should be subject to risk management. Risk management is a costly and laborious undertaking and should only be implemented for export business entailing significant risks and not for any which are uncritical for the company. One possibility is to delay applying risk management to export business until it reaches a certain sales volume. Another is only to evaluate the risks of export business if it is conducted in markets classed as critical, if the customer does not pay in advance or if products are used in unusual conditions.

5.2 Assessment of opportunities and risks in export business

An analysis of export business ventures classed as critical should show what significance they have for the success of the company. Each business venture must be judged on the positive and negative influences it can exert on the company's profits.

Evaluation of opportunities is based on an assessment of how high the cost contribution linked to the export business will be. This measurement is based on the sales yielded by the business, less the variable costs incurred through gaining the business. If the business engenders extraordinary costs or profits (tax breaks, grants), these are offset against the potential cost contribution.

Not all export business runs in an orderly manner.

The evaluation of export risks proceeds via an appraisal of the damage potential and the probabilities of occurrence of all risk types of relevance to the company (see Hollmann 1984).These assessments are based on the company's experience of international business and an analysis of information provided by specialist institutes. The evaluation grid and the available information sources are contained in the export risk checking tool xRisk (see Figure 6). Each information source comes with a note of which institute prepares the information and what it contains. The information can be retrieved from the webpages of the particular provider.

The assessment of opportunities and risks is undertaken for a particular time horizon, which depends on how the export business is defined. If the company is scrutinising individual projects, the cost contributions and losses can be assessed for the whole duration of the project. If it defines customers or markets as examples of export business, it will undertake an assessment of opportunities and risks every year.

xRisk

Assessment of Export Business

Name	Chess
Designation	Chess
Product	Board Game
Client	Müller GmbH
Country	Germany

Expected export revenue (in CHF)	30,000
Expected marginal income (in CHF)	15,000
Extraordinary income/expenses (+/– in CHF)	–500
Total expected gains (in CHF)	**14,500**

Risk types		**Source**	**Maximum loss (in CHF)**	**Probability of occurrence**	**Expected loss (in CHF)**
Commerical risks	Currency losses	www.eulerhermes-aktuell.de/de/laenderinformationen/laenderinformationen.html	7000	High (70%)	4900
	Inflation	http://data.worldbank.org/indicator/NY.GDP.DEFL.KD.ZG	0	Unlikely	0
	Recession	http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG	0	Unlikely	0
	Currency shortage		0	Unlikely	0
	Obstacles in currency exchange	www.heritage.org/index/heatmap			0
	Blocking of VAT				0
	Tax increases	www.doingbusiness.org/data/exploretopics/paying-taxes			0
	Customs increase	www.wto.org/english/res_e/statis_e/statis_bis_e.htm?solution=WTO&path=/Dashboards/MAPS			0
Legal risks	Change in product requirements				0
	Legal uncertainty	http://worldjusticeproject.org/rule-of-law-index			0
	Inadequate enforceability of contracts	**www.doingbusiness.org/data/exploretopics/enforcing-contracts**			0
	Corruption	www.transparency.ch/de/publikationen/Les_indices_de_TI/index.php	0	Unlikely	0
Sales risks	Loss of distribution partners		0	Unlikely	0
	Change in customer requirements		0	Unlikely	0
	Payment defaults	www.atradius.co.uk/creditmanagementknowledge/publications/europeanpaymentbehaviour.ht			0
	Cancellation of orders				0
Competition risks	Product copies	**www.internationalpropertyrightsindex.org/ranking**			0
	New competitors				0
	Substitution of products				0
Personnel risks	Legal violations				0
	Head-hunting	www.doingbusiness.org/data/exploretopics/employing-workers	0	Unlikely	0
	Blocking		0	Unlikely	0
	Injury	www.controlrisks.com/Riskmap/Pages/RiskMap.aspx	0	Unlikely	0
	Disloyalty		0	Unlikely	0
Political risks	Unrest	www.controlrisks.com/Riskmap/Pages/RiskMap.aspx		Unlikely	0
	Terrorism	www.eda.admin.ch/eda/de/home/travad/travel.html		Unlikely	0
	Trade embargos	www.seco.admin.ch/themen/00513/00620/		Unlikely	0
	Import restrictions			Unlikely	0
	Nationalisation	www.heritage.org/index/heatmap	0	Unlikely	0
Natural hazards	Earthquakes	**http://earthquake.usgs.gov/earthquakes/map/**	0	Unlikely	0
	Epidemics	www.who.int/research/en/	0	Unlikely	0
	Volcanic eruptions	http://earthobservatory.nasa.gov/NaturalHazards/category.php?cat_id=12&m=03&y=2013	0	Unlikely	0
	Floods	http://earthobservatory.nasa.gov/NaturalHazards/category.php?cat_id=9&m=03&y=2013	0	Unlikely	0
	Landslides	www.emdat.be/	0	Unlikely	0
	Storms	http://severe.worldweather.wmo.int/	0	Unlikely	0
Product risks	Malfunction		0	Unlikely	0
	Liability		0	Unlikely	0
	Misuse (dual-use goods)	www.efbs.admin.ch/fileadmin/efbs-dateien/transportguideline/d-SECO-Dual-use-Gueterkontrollverordnung-2008.pdf	0	Unlikely	0
Distribution risks	Delays	www.doingbusiness.org/data/exploretopics/trading-across-borders#sub-menu-item-link	0	Unlikely	0
	Transit damage		0	Unlikely	0
	Loss of goods in transit		0	Unlikely	0
	Incomplete deliveries		0	Unlikely	0
	Customs formalities	www.doingbusiness.org/data/exploretopics/trading-across-borders#sub-menu-item-link	500	Very high (90%)	450
	Incomplete documents		0	Unlikely	0
Other			0	Unlikely	0
			0	Unlikely	0
			0	Unlikely	0
			0	Unlikely	0
			0	Unlikely	0
			0	Unlikely	0
			0	Unlikely	0
			0	Unlikely	0
			0	Unlikely	0
			0	Unlikely	0
			Total expected losses (in CHF)		**5350**

The Doing Business project measures the freedom of business transactions in various countries. This indicator measures the efficiency of the legal system in the resolution of disputes of a commercial nature.

The International Property Rights Index (IPRI) is the first international comparative study on protection of ownership.

Real-time earthquake map from the U.S. Geological Survey

Figure 6: Evaluation of trade risks with the xRisk tool

5.3 Analysis of the export risk matrix

The figures anticipated for cost contributions and losses emerging from analysis of the export business are compared against the company's net equity, which reveals the relative positions of the ventures in an opportunity/risk matrix, as shown below (see Figure 7). The relationship with net equity is used because the entrepreneurial risks must be borne by the net equity. If a risk exceeds the company's net equity, it endangers the company's existence.

The size of the circles in the export risk matrix corresponds to the sales volume expected from the export business in relation to the total sales volume of the company. It reflects its significance for the company's activities as a whole.

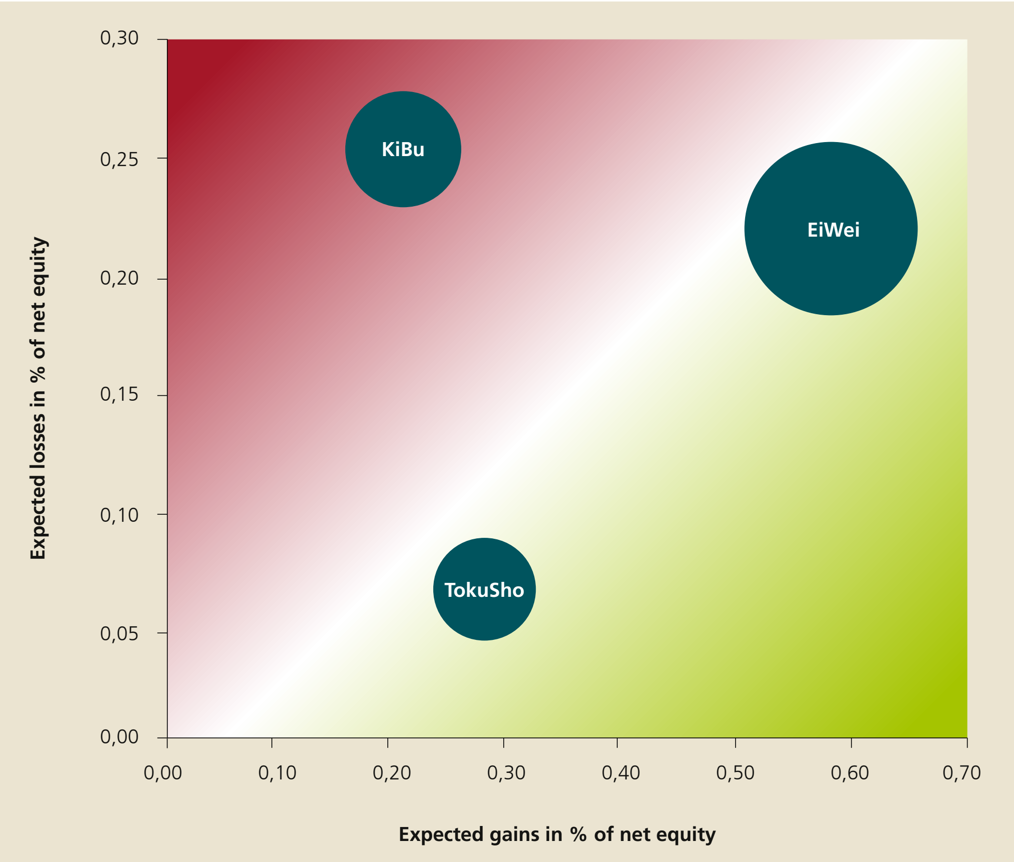

Figure 7: Export risk matrix in xRisk

The export risk matrix reveals the opportunities and risks in the company's export business at a glance and enables a complete analysis of the risk exposure. This requires the company to answer the following questions:

- Which are the examples of export business where the risks are estimated to be higher than the opportunities?
  → These are plotted in the upper, left-hand half of the matrix.
- Which predominate overall in the company's export business – risks or opportunities?
  → This depends on whether the majority of the business ventures are plotted above or below the diagonal.
- Are there big risks in specific export business ventures which could affect the existence of your business?
- Are the opportunities and risks of the export business ventures independent of each other or are there interdependencies which could lead to greater losses in several business ventures?

The outcome of this analysis and the company's current attitude to risk point to the tasks to be addressed by export risk management.

5.4 Export risk management

The purpose of risk management is to reduce to the most favourable level the risks faced by a company. This enables the company to pursue a policy of only engaging in export business ventures if the accompanying risks are less than the expected opportunities. It can view its risk exposure as a whole and adopt a position whereby the risks in the export business taken as a whole are not permitted to be higher than the opportunities, or it can limit itself to export business which does not threaten the livelihood of the company.

The way a company handles its export risks is linked to its attitude to risk and to its degree of competitive edge. Companies with products very much in demand in foreign markets and which are subject to little pressure from competitors will be better placed to avoid risky business ventures than those whose products are weakly differentiated from others and face strong competition. Companies with high growth targets and owners willing to take risks face greater risks than those which are satisfied with their market positions and are unwilling to suffer appreciable losses.

The means available to companies to manage their export risks can be subdivided into four categories – Acceptance, Transfer, Avoidance and Mitigation (see Ojasalo 2009). Figure 8 shows that in the main the companies surveyed pursued a policy of mitigating their export risks.

5.4.1 Risk mitigation

To mitigate their export risks, companies require their customers to pay in advance. They set credit limits and adjust these to reflect their customers' payment performance. One of the companies surveyed adopts the following procedure, *"When we supply to a customer for the first time, we set a credit limit. After that, we keep a very close watch on the payment receipts and raise the limits step by step for reliable customers."*

Internationally experienced companies run a very systematic accounts receivable management system and waste no time in issuing payment reminders when payments are late. They arm themselves against currency fluctuations by dealing in futures and purchasing foreign currencies. Here is a view representative of the interviews, *"We reduce our foreign currency risk to about 50% by buying Euros and dollars. The only thing we are not allowed to pay in foreign currencies in Switzerland is salaries."*

The companies diversify their export business into markets in various stages of development and with different economic cycles. They bolster their competitive position by cutting costs and/or improving quality. They distribute their products through carefully selected resellers, who purchase and sell on their own account. They shift production to locations with lower wage costs and define the conditions under which their products should be used, and they also define what warrantees are given, the scope of their liability and jurisdiction. All this is defined so precisely in their General Terms and Conditions of Business that numerous risks are considerably mitigated, *"For most export business, we control the product specifications and liability conditions so that the amount of loss cannot exceed the project volume."*

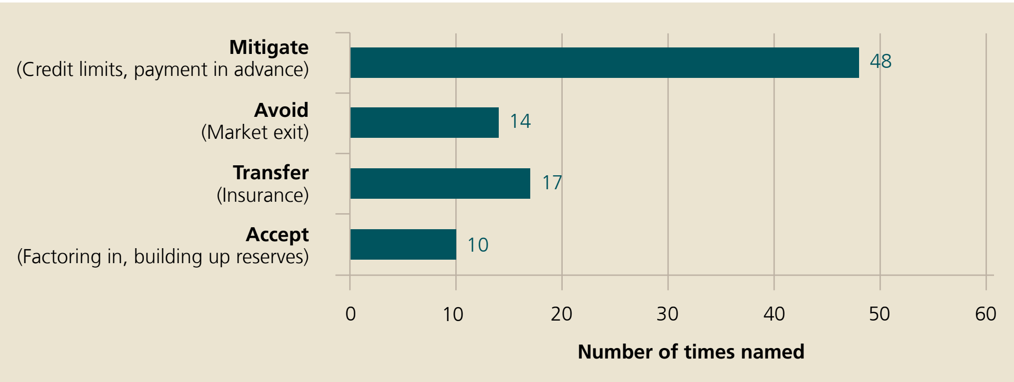

Figure 8: Strategies for export risk management

5.4.2 Risk avoidance

Examples of avoiding export risks are not entering markets with political instability or cutting off supplies to customers with a poor payment culture. One of the companies surveyed put it this way, *"We do not operate in countries like Afghanistan, Pakistan and Iraq. We'd rather do without the revenue than put the lives of our staff at risk."*

Risk avoidance also means invoicing in Swiss francs for sales to economically risk-prone countries, only supplying customers not known to the producer with standard products and limiting products and services to ones in which the supplying company can control the quality, *"We have stepped back from business where our production share was too low. We simply could no longer afford to guarantee the functionality of the products."*

5.4.3 Risk transfer

Insuring against export risks is included in the transfer category. The companies surveyed often use letters of credit to secure customer payments and take out product liability insurance if major losses are a possibility, *"For orders over CHF 50,000, we limit the financial risk through payment in advance or letters of credit and are not willing to run greater risks for a quick sale."*

Insurance cover costs money and reduces margins in export business. However, it prevents major losses which the company cannot afford and makes business planning easier. Some companies even manage to factor the export risks into their prices and so shift the risks to customers.

5.4.4 Risk acceptance

Risk acceptance can mean that the exporting company may decide to bear the risk of payment default itself. Said one company, *"Major customers expect us to deliver on presentation of invoice. We have to bear the risk of payment default ourselves if we want this business."*

Some smaller companies are even forced to accept product specifications from customers. They create reserves to cover warranty cases and accept the currency risks without securing them.

The strategies Accept, Transfer, Avoid and Mitigate offer ways of reducing the risks that exporting companies run. However, some of the measures also come with costs, so the degree of mitigation achieved through risk management must be carefully reviewed to determine whether the costs exceed the anticipated losses (Gleissner 2011).

The mitigation achieved through risk management should be mapped in the export risk matrix and the export business ventures should be replotted. This will reveal whether the company has been successful in reducing its risk exposure to an acceptable degree or whether it has business which should not be conducted because of the opportunity/risk ratio.

5.5 Monitoring export risks

The last step in the export risk management process consists in period checks of the positions of export business ventures in the export risk matrix and amending them if export opportunities and risks change.

New export business classed by the company as critical is added to the export risk matrix. Export business which has finished is removed from the matrix to ensure that it reflects the current state of the company's export risk exposure.

Also, instances of loss in connection with the company's export business are collated and checked to see whether they had previously been identified as risks and assessed correctly. This gives the company the means of gathering experience of risk management systematically and adjusting risk assessment.

6. Institutionalisation of export risk management

According to Gleissner (2011), there are different levels of aspiration underpinning a company's risk management measures:

- Some do not address the risks inherent in their activities until they become loss-making
- Some only secure the greatest risks to protect themselves against bankruptcy
- Some monitor all their business risks continuously
- And some include their business risks in entrepreneurial decisions and try to achieve the optimum balance between opportunities and risks in order to maximise the value of the company

A study by accenture has shown that risk masters (i.e. companies which achieve a competitive advantage through risk management) include risk analyses in important business decisions, take a combined approach to weighing up risks and returns and use tools which rapidly deliver up-to-date data for risk assessment. Risk management masters look at a broad range of risk types, appoint risk managers at the highest level and create a risk culture in the company (Culp 2011).

This reveals the importance of making risk management an intrinsic part of a company's corporate culture. The export risk management process as set out above can look as follows: Management determines the criteria for preselection of export business to be subject to risk management. As already described, this may be by definition in the General Terms and Conditions of Business, definition of critical markets or a critical sales volume value.

The individuals responsible for export business (export managers, salespersons, representatives) review the business ventures in terms of these criteria and decide whether they need to be subject to export risk management or not. If this is necessary, the ventures are examined by the xRisk export risk checking tool and assessed in terms of their opportunities and risks.

If the risks of an export business are estimated to be higher than its opportunities, the individual responsible draws up a risk management plan and submits it to management which decides whether or not to conduct the business.

The export managers make periodic reviews of the plotting of the export ventures in the matrix and report to management if a venture slips into the critical zone.

Management makes periodic reviews of the company's risk exposure in export business and checks whether additional risk management measures are needed. Management then includes the export risk matrix in its annual financial statement at year's end to reveal how the company deals with the risks occasioned by its export business.

It is true that this way of institutionalising export risk management contravenes the principle that managerial responsibility and risk management should be kept separate because otherwise conflicts of interest can arise. However, it profits from the export business expertise in the sales department in assessing the associated opportunities and risks and assumes that it is not in the interests of those responsible for export business to set too low a risk rating if they are called to account in the event of losses.

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