Treading the Risks in International Management

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Multinational companies are making significant investments in high-risk developing countries lured by the lower factor cost and growth potential. Much research has deliberated on the risks related to such international business, and in particular the country risk. However, there are only a few empirical and theoretical studies that examine the managerial response of multinational companies to the contingencies in international management. This paper aims to fill this gap and specifically addresses the question of why a tighter integration of a subsidiary is still desirable despite the progression of agile networks. The empirical results of a comparative case study are discussed and a framework that articulates the dynamic approach of the parent company headquarters is presented. A map of factual events was created and juxtaposed with the hypothesized reasoning behind the observations.

Keywords: international management; high-risk; multinational; headquarters; case study

Introduction

Multinational companies are choosing to make large investments in the developing countries and according to the recent UNCTAD statistics (2013) this investment has grown by several times in the period between 2003 and 2013. Such investment can be regarded as result of the global strategy of companies (Buckley, 2007; Hansen, Pedersen, & Petersen, 2009; Schoenherr, et al., 2012) or as a symbol of the deepening globalization (Farrell, Memes, & Schulz, 2004; MatthysSENS, Pauwels, & Quintens, 2006; Kagitci, Vacarelu, & Fratila, 2013). Actually, it is more about the opportunities created by entering the foreign markets and being able to generate new knowledge or achieving savings through lower labour costs, since many companies that claim steps toward adopting a global strategy actually differ in the understanding of terms like ‘global.’ A broad definition of globalization – ‘a process leading to greater interdependence and mutual awareness […] among economic, political, and social units in the world’ – would suggest that globalization has a long history accompanied by a sharp rise in the income inequality between the West and the rest of the world.
(Stiglitz, 2006; Jones, 2010; Vogli, 2013), whereas some prefer the ontology to be arbitrated to India, China, and Russia or even retain continuity on a platform where multinationals rarely had to adjust or innovate their strategies in response to the competition from locally-owned firms, due to the limited competition. Nevertheless, as Bartlett and Ghoshal (2002) suggest, managing risk is one of the primary objectives of firms operating internationally and often such endeavours are fraught with difficulties. Companies can be affected in unexpected ways leading to huge problems and losses as they are exposed to a variety of risks that Andersen and Schrøder (2010) categorized as strategic risks, operational risks, economic risks, and hazardous risks. Theoretically, a company should link risk management with the investments and the growth decisions, and risk management should be treated as a strategic business process wherein the top management assesses the consistency of the business activities with the stated strategic objectives. However, in practice, managers may make decisions for which they believe are strongly supporting the firm’s strategy; however, oftentimes that is not the case. Challenges emerge because few managers understand the full demands of the company’s strategy and its implications for international operations (Lovallo & Kahneman, 2003; Klohs, 2012). In addition, the process of globalization is not uniform across all industries and there are substantial differences in the extent to which developed and developing economies have been integrated into a single global market.

Thus, we infer that there is a need for an overarching approach in order to comprehend the enterprise-wide risk instead of splitting the risks. Much research has deliberated on the risks in international business, country risk in particular, as well as the level of political and economic uncertainty, which can impact the investments. Some studies of country risk analysis and assessment have also surfaced; namely, a country risk analysis representing the potentially adverse impact of a country’s environment on a multinational corporation’s cash flows and the probability of loss due to the political, economic, and social upheavals in a foreign country (Hallikas, Virolainen, & Tuominen, 2002; Vij & Kapoor, 2007). However, there are only a few studies that examine the managerial response of the multinational companies; therefore, in this paper we have brought to fore the cases of two prominent European multinational companies that are treading the risks in their India operations. The significance of India is a key aspect to consider, since it has been ranked as a promising country for business operations; furthermore, the Finance Minister of India has recently pitched India as an attractive investment destination with imminent reforms (Chidambaram, 2013).

This paper focuses on the following two research questions:
1. How companies respond when faced with risks and challenges of international management?
2. Why a tighter integration of a subsidiary is still desirable despite the progression of agile networks?

Initially, we included the relevant literature review and then proceeded with the section on empirical research. The results of the comparative case study have been analyzed and a framework has been developed.

**Literature Review**

A substantial portion of the international management theory focuses on the established multinational corporations and since risk is inherent in such international ventures, there is extensive literature available on risk management across disciplines such as finance, economics, strategic management, supply chain management, and international business. However, the existing literature is more normative and contrasted by positivistic assumption shaping the qualitative approach with interview-observation approach presented in this paper. At the same time, it is worthwhile to review the literature based on the fact that firms today are engaging in international business activities earlier in their organizational cycles and the existing guidelines can lead to a framework.

In today's dynamic markets we are facing unprecedented turbulence; therefore, uncertainty can be regarded as the key risk driver. This uncertainty coupled with complexity within a supply chain gives birth to chaos (Childerhouse et al., 2003; Lee & Jung, 2013). Often the managers fail to develop a proactive approach, due to the fact that if a risk never materializes, the expenses incurred on risk assessment and management activities are hard to justify to the top management. Altay and Ramirez (2010) report that despite the risks, 95 percent of the Fortune 500 companies are not equipped to manage a disruption that the company has not previously experienced. Moreover, the country risks ripple down from the macro level to the company level as embodied in the strategy, relationships, collaboration, operations, cultural patterns, and so on (Cavusgil & Deligonul, 2012). In order to better understand the manifest risks, it is imperative to establish a process by tracking the risk-exposure from the country to the company level in the context of the prime contractor's global supply network. The recent global financial crisis has significantly raised the research interest in the corporate risk disclosure around the world and triggered the regulatory reforms and responses from various government agencies. Risk disclosure covers a broad set of information on risk sources, as well as means of risk management varying in location, scope, and nature (Dobler, Lajili, & Zéghal, 2011; Gates, Nicolas, & Walker,
In general terms, risk disclosure shall reduce the information asymmetry between the managers and the outsiders by providing the users of financial reports with information on the risks a company faces and on how these risks are managed (Linsley & Shrives, 2006). Still, in practice there is only piecemeal evidence on the attributes and determinants of risk disclosure. According to Dobbler et al. (2011), an international investigation of risk disclosure is missing and is highly warranted. Therefore, when considering a more objective conceptualization of risk, we can identify the definition of risk as a chance of danger, damage, loss, injury, or any other undesired consequences (Harland, Brenchley, & Walker, 2003); furthermore, it should be noted that risk can include both quantitative and qualitative losses (Manuj & Mentzer, 2008). For example, the quantitative losses may be lost sales due to stockouts, while the qualitative losses may be the loss of brand equity or the termination of a business relationship. Miller (1992) highlighted that the risks of firm internationalization cannot be represented with a single dimension nor with multiple independent dimensions, but instead must be seen as multiple, interdependent concepts. On the other hand, both Cheng, Hou, Ho, and Westerlund (2011), and Oetzel, Bettis, and Zenner (2001) have preferred to include the detailed components of country risk although acknowledging that such risk measures are poor indicators of significant risks. Many additional references that allude to or cite the aspects of risks in international management are displayed in Table 1. Real options theory represents a promising theoretical perspective with which to evaluate the relationship between international operations and organizational risk, while the supply chain viewpoint dwells on different types of risks such as supply risks, security risks, macro risks, and so on.

When companies operate in unfamiliar environments abroad, they are often exposed to new types of risks and complexities that can threaten business performance, as well as mask new opportunities. India, in particular, is rated as a high risk country with high political risk, economic risk, and socio-cultural risk; however, the prospects for conducive, corporate growth coupled with rapid infrastructure development lure the management to con-
sider large investments. Since it is the management’s role to identify, assess, and manage risk, the managerial response is closely tracked and is expected to have sound foundation, justification, rationale, and use of tools such as scenario planning.

Research Methodology
The case methodology utilized in our paper relies on multiple sources of evidence and aims to bring new insights. Two European multinational companies were selected, since these companies are facing formidable challenges in their Indian operations and, more importantly, the data for research could be collected with lesser hassles. As Yin (2008) indicates, the access to information is a key factor in conducting case study research and it is also preferred to have more than one case to back up a research. We also attempted to find out whether there is a basis for generalization by comparing the empirical results with the existing theories or surveys. The primary sources enabled us to structure the case studies, examine the relation between the literature studies and manifest as a qualitative survey. According to Jansen (2010), a qualitative survey is the study of diversity that does not count the number of people with the same characteristics (value of variable), but it establishes the meaningful variation (relevant dimensions and values) within that population. In this study, inspiration is sought in the methodical approach used in connection with multiple case studies and it is the choice of the qualitative interviews that opened up the possibility of gradations, regular interpretations, and specifications of important issues, regarded as a combination of theoretical deductive and empirical inductive methods (Sjöström, Johansson, Asplund, and Alricsson, 2011). The data was collected by interviewing the executives in India, as well as people at different organizational levels. Additional data was provided by a private agency, apart from visits by the post-graduate candidates to the channel partners, and other sources such as committee reports, newspapers, and electronic sources. Since it was possible to follow the case organizations for a limited period only, the empiricism is based to an extent on historical data, events that occurred before the initiation of a formal case. The two selected case companies stand out from their peers, due to the initial jolt they experienced and the continuing impact on the bottom-line financial results. We used multiple informants, as well as archival data to crosscheck the pertinent information and ensure the reliability of data obtained. Also, with the hope of enhancing internal validity, other factors that could serve as alternative explanation for the observed patterns were recorded. A map of factual events was created and juxtaposed with the hypothesized reasoning behind these observations.
Empirical Investigation and Findings

In this section, we present the two case studies developed from systematic efforts and perseverance. The purpose here is to describe the situations and unfold them in order to gain insights and learning.

Company A

Company A is a subsidiary of the European multinational company XYZ and is a leading producer of athletic shoes, apparel, and accessories. Company A, a reputed brand in the sports equipment industry, was acquired by XYZ in 2005 in order to challenge the market leader. The combination of Company A and XYZ accelerated XYZ Group’s strategic intent in the global athletic footwear and apparel markets and today (2012–2013 figures) the revenue of XYZ has reached over 14 billion. As of 1 January 2012, XYZ employed over 46,000 people and recorded a profit of over 1100 million. XYZ operates in Europe, the Americas, and Asia, and the combined entity of Company A and XYZ offers a complete portfolio in key sports categories.

The Indian operations of Company A and XYZ merged in 2011 and in the meantime, Company A was already enjoying a head-start over rivals. Company A was appreciated for its performance and even regarded as a star performer. When Mr. P became the Managing Director of the combined entity in India, few eyebrows were raised considering that he had the necessary credentials and was an ‘old hand,’ having joined the company in 1995. Mr. P initiated a rapid expansion plan of brand A (Company A) in India under his own authority and the plan seemed to substantially enhance the brand image. The number of stores grew from just 100 in 2003 to over 800 in 2011. As such XYZ Group was looking at India as a global manufacturing hub since 2004, after establishing similar operations in China. The strategic business plan of XYZ called the ‘Route 2015’ included India as one of the key markets.

The shock came when XYZ Group announced that it had uncovered a fraud of the magnitude of 125 million at the Indian operations of Company A. Subsequently, the Managing Director Mr. P left the company along with more than ten other senior employees and the Chief Operating Officer. The XYZ Group stated: ‘Mr. P has been charged for financial irregularities and a criminal complaint has been registered for investigation by the Indian law enforcement authorities.’ Three different agencies viz. the Income Tax department, the Serious Fraud Investigation Office (SFIO) under the Corporate Affairs Ministry of India, and the Economic Offences Wing of the police force, recorded the findings at the Company A. The probe revealed that the governance and operations in the company were mismanaged and there was gross non-adherence to the guidelines of the business procedures in the firm. Mr. P was accused of stealing products, setting up secret
warehouses, fudging accounts, and engaging in fictitious sales for years. As such, a prominent multinational like the XYZ group contemplates operational risk that includes fraud, legal risks, and failed internal processes, and the company already had a risk management system in place; however, Mr. P himself being a ‘risk owner’ subjugated the established system. Another dimension to this is that there is a deviation between the formulated central risk policy and the risk management systems implemented in country units, which in itself can be treated as a country risk. While a fraud risk is the chance of a perpetrator or perpetrators committing fraud, which has an impact on the organization, the word ‘honesty’ can be interpreted differently, that is, honest behaviour to one person could be seen as dishonest by another and unless somebody in an organization clearly sets out what is honest or dishonest, each employee will have his/her own interpretation. It is noteworthy that when Mr. P was projecting star performance figures the Company A didn’t notice the treading operational risks and only when some stakeholders demanded the payment of dues did the fraud risk issue become conspicuous. Figure 1 depicts the risk management system of the company. According to the risk and opportunity report of the company (2010), XYZ Group defines risk as the potential financial impact caused by the occurrence of an external or internal event or series of events that may negatively impact the ability to achieve the business objectives. Risk is categorized as strategic and operational, compliance-related and financial. In order to facilitate the effective risk and opportunity management, the company has an integrated system, which focuses on the identification, evaluation, handling, monitoring, and reporting of risks and opportunities with the aim of adding value through a risk-aware decision-making framework.

Financial accounting at Company A was conducted locally and IT systems were based on SAP AFS (SAP Apparel and Footwear Industry Solution).
The individual financial statements were transferred into a central consolidation system based on SAP SEM-BCS (Strategic Enterprise Management-Business Consolidation Services Solution). However, the ERP system in the Indian operations of the Company A lacked reliability, because trained and competent people were not put on the job and several post-implementation issues remained unresolved. One executive mentioned, ‘It was difficult for the company to reconcile the figures and present the details for the investigating agencies. This shows that the system data leaves a lot to be desired. The company has finally just provided a break-up of the €125 million attributed to parallel accounting that inflated sales, goods invoiced but not despatched, goods returned and pending inspection, secret warehouse bills, and interest lost on franchisee referral programme.’

Following the allegations of irregularities at Company A, the parent XYZ company headquarters announced top management change in India with Mr. EH, a national of parent country, moving in to head the Indian operations. Mr. EH immediately declined the proposal of shutting down the operations of Company A, but announced a restructuring plan supporting the business model change. Mr. EH said, ‘We are looking at new possibilities since FDI laws in India have changed. We are ensuring that there is going to be an internal control mechanism across all verticals, a comprehensive system that can be established by working with our parent company headquarters.’

Company A decreased the number of stores in India by two-thirds and plans to develop a business model that caters to the emerging countries. The company declared a voluntary retirement scheme that has been accepted by more than 30% employees. Further, the company designed a zero tolerance policy against involvement in fraudulent practices by any of its franchise partners and suppliers. Nonetheless, the corporate risk assessment data indicates that between 2010 and 2013, the risk profile is changing. For example, the likelihood of occurrence and potential financial impact of legal risks was moderate in 2010, but such risks have become likely and significant respectively as of date. Similarly, the risks related to non-compliance have changed from unlikely in 2010 to likely. The company restated the accounts with an overall decrease in profit by over 9 percent for the XYZ Group. The subsidiaries are brought closer to the parent company by refining the Group policies, particularly the risk management policy that outlines the principles, processes, tools, risk areas, key responsibilities, reporting requirements, and communication timelines within the Group. As an action plan emanating from the risk mitigation review meeting, the Company A now requires all employees to participate in a special Code of Conduct training. Earlier, the participation in such compliance programmes in Indian operations was need-based and the seriousness was of a routine nature;
however, now the reports are directly evaluated by the parent company in Europe.

Mr. EH has some specific experience in the supply chain network design in emerging countries and hopes to utilize that experience in India as well. The modified business model includes a portfolio of contracts to be used in supply chains to persuade the retailers with different levels of risk aversion to select unique contracts. Basically, this results in risk being transferred to multiple retailers. The new management team of Company A re-examined the network design decisions taken after the Company A and XYZ merged, since these decisions could have an impact on the performance since they determine the supply chain configuration. The disruption risk, procurement risk, inventory risks, and systems risks have now been duly considered. In conjunction with the so-called global operations team, the company is attempting to transform into source facility in addition to enabling a demand-driven supply chain that leverages the existing short lead time production models to improve availability without excessive inventory. Company A is building a chained network in order to implement flexibility and mitigate the risk of demand fluctuation; however, the parent company prefers an integrated structure and hence longer chains that have the advantage of effectively pooling available capacity but are increasing the difficulties in coordination are being established. With the guidance of the parent company headquarters, there are also future plans of moving forward with a global procurement solution that would effectively link the Indian operations in the overall integrated structure.

**Company B**

Company B, a mobile network operator in India, is a joint venture between the Nordic (Northern European) PQR Group and the Indian LMN Group. Company B offers mobile voice and data services based on the GSM technology and its services are commercially available in six circles with over 30 million customers in India. In early 2009, PQR Group decided to make investments to the tune of over €1 billion and take majority stake (67.25 percent) in Company B. The PQR Group was gladly given the necessary approval by the Indian Foreign Investment Promotion Board considering that PQR is an established provider of telecommunication services worldwide with revenues of more than €10 billion and employing 32000 people. With a high stake and the support of PQR Group, Company B grew rapidly through a lean operation model and an effective strategy with a focus on excellence in mass market distribution, enhanced services, and cost efficient operations.

The shock came in February 2012, when the Supreme Court of India ordered the cancellation of all 122 unified access services issued in January 2008 and directed the Telecom Regulatory Authority of India (TRAI)
to make fresh recommendations for the telecom spectrum auction route, reasoning that the 2G licenses were allotted in an unconstitutional and arbitrary manner. Reacting to this telecom scam and sudden cancellation of all licences, PQR stated, ‘This pertains to actions that happened much before we entered India. Since we have not caused any of the faults found by the courts, it is obvious that our investment must not be jeopardized.’ However, this was the beginning of a feud between the European PQR Group and the Indian LMN Group over risk management and control of Company B. The PQR Group wanted to scrap the joint venture outright, but this move was strongly rejected by LMN; consequently, litigations and disputes followed. The parent company headquarters decided to directly oversee the developments in India and the CEO of PQR became the key liaison. Company B had risk management system in place, but only the highlighted risks were reviewed in quarterly business meetings. Actually, a similar system was followed by PQR Group as well and ad hoc risk management decisions were taken or more often left to the country managers. Nevertheless, PQR was aware that operating across multiple markets exposed it to a range of financial, regulatory, operational, and reputation risks and, therefore, planned to integrate systematic risk management with Group’s business processes. PQR certainly realized that there was a substantial risk that Company B will not be able to continue operations in India and yet, lured by the India phenomenon, PQR kept raising the investments. Later, in 2012 auction, Company B actually won back the licenses and spectrum in six circles, although it had to discontinue its operations in Kolkata and Mumbai.

In October 2012, PQR and LMN reached an agreement to amicably settle all disputes and the business of Company B was transferred to a new entity controlled by the PQR Group. In a European press statement, the PQR Group CEO said, ‘An extraordinary turnaround operation was followed and very early on we left no doubt about our intentions to stay and secure our future operations in India that will be one of the world’s biggest growth markets for years to come.’

PQR decided to implement the learnings from India across eleven countries, mainly implementing the sustenance model developed by Company B. With ‘group industrial development (GID)’ initiative, the headquarters is setting up central teams that will travel and work with local operations in order to push the new models, such as the tower profitability model, the tracking system, and so on. The Chief Financial Officer of Company B, along with fifteen other employees, has been moved into units of GID that review sourcing, managed services, markets, and project management. As in previous years, the headquarters is working on systematically reducing the risk in the supply chain in 2013–2014, but in a more structured manner. The lo-
cal risk managers now have to coordinate the risk management processes and interact with the parent company in addition to evaluating the level of integration and percolation of Group’s strategy and business plans.

Discussion and Conclusion

This section discusses the results coming from the comparative analysis of the cases. The considerations are organized and also a framework is generated. The cases make it apparent that when actually faced with risks and challenges in international management, the companies do not really follow the ideal steps and in fact, practitioners may not even follow the risk management policies of the company in letter and spirit. Our research shows that companies don’t tread the risks systematically and item-wise, they tend to reduce the risks by taking drastic steps when the situation comes to ‘crossing the bridge.’ Both companies, A and B, had a risk management system in place before the incidents actually occurred; however, the methods of tackling the risks were quite different than expected and the gap between the central risk policy and its implementation at the country level became clearly visible (see Table 2). In the past five years, multinationals have traced the model of networks and regarded the role of parent company headquarters as designing process architecture instead of exerting direct control. However, analysis indicates that the need for more local commitment to transfer best practices and to promote parent company values and conduct necessitates companies to seek more control over their foreign subsidiaries.

Furthermore, risk mitigation and practices that call for or lead to bringing the subsidiaries closer to the parent company are the reasons for tighter integration of subsidiaries. At best, multinationals can experiment with ‘subsidiary democracy’ or selecting best operating practices initiated collectively by their subsidiaries. PQR is already in the process of forming effective teams that contain representatives from each subsidiary, as well as headquarters that deliberate on common interests. Ultimately, the dynamism of the parent company headquarters matters (see Figure 2), though futuristic multinationals are seen moving from ethnocentric approaches to geocentrism. Subsidiaries can move to incremental upgrading, but even that depends partly on having a headquarters that is willing to provide adequate support.

In the era of agile networks, it would be surprising to record that multinationals can turn back to the vertical model where knowledge flows top-down from headquarters; however, this strategy can still prove desirable, although the issue arises whether it is pragmatic to back-track from transnational or global path to the traditional multinational conduit. The focus would then again be on leveraging the strengths rooted in the parent country,
Table 2  Summary of Case Results

<table>
<thead>
<tr>
<th>Category</th>
<th>Case A</th>
<th>Case B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of Company</strong></td>
<td>Multinational</td>
<td>Multinational</td>
</tr>
<tr>
<td><strong>Entry mode in India</strong></td>
<td>Franchising</td>
<td>Joint Venture</td>
</tr>
<tr>
<td><strong>Risk management system in place</strong></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Cause of impact</strong></td>
<td>Fraud risk</td>
<td>Strategic risk</td>
</tr>
<tr>
<td></td>
<td>Operational risk</td>
<td>Operational risk</td>
</tr>
<tr>
<td><strong>Specific reason for the situation</strong></td>
<td>Risk owner became the perpetrator of fraud</td>
<td>Cancellation of licenses Telecom scam</td>
</tr>
<tr>
<td><strong>Awareness of risk</strong></td>
<td>Not because of prior risk assessment</td>
<td>Sudden, country risk</td>
</tr>
<tr>
<td><strong>Risk Profile</strong></td>
<td>Changing, unlikely to likely event</td>
<td>Changing, moderate to high occurrence</td>
</tr>
<tr>
<td><strong>Response to risk</strong></td>
<td>Passive at company level</td>
<td>Reactive, subdued</td>
</tr>
<tr>
<td></td>
<td>Forceful parent company headquarters</td>
<td>Influential parent company headquarters</td>
</tr>
<tr>
<td><strong>Subsidiary control</strong></td>
<td>Increased</td>
<td>Increased</td>
</tr>
<tr>
<td><strong>Risk management mechanism</strong></td>
<td>Increased</td>
<td>Increased</td>
</tr>
<tr>
<td></td>
<td>Refined, more involvement of headquarters</td>
<td>Changed, more interaction with parent company</td>
</tr>
<tr>
<td><strong>Financial reports</strong></td>
<td>Restated the accounts</td>
<td>Delays</td>
</tr>
<tr>
<td><strong>Business model</strong></td>
<td>Changed</td>
<td>Business transferred to new entity</td>
</tr>
<tr>
<td></td>
<td>Transferring risk</td>
<td></td>
</tr>
<tr>
<td><strong>Supply chain risk</strong></td>
<td>Design reformulated; disruption risk, procurement risk, and system risk included; toward sourcing facility</td>
<td>Structured</td>
</tr>
<tr>
<td><strong>Risk Mitigation</strong></td>
<td>Employees to participate in special code of conduct training; Chained network for implementing flexibility</td>
<td>GID initiative Integrated system</td>
</tr>
<tr>
<td><strong>Investments in India</strong></td>
<td>Continued, focused</td>
<td>Continued, long-term enhanced</td>
</tr>
<tr>
<td><strong>Rationale for further investments</strong></td>
<td>FDI laws in India have changed</td>
<td>India phenomenon</td>
</tr>
</tbody>
</table>
Considering that agile networks focus on loosely coupled structures and are entities developed from interactive collaboration of a number of companies shaped in a particular way to fulfill a business objective (Gore & Panizzolo, 2012), differentiated network, such as global factory can significantly stabilize the risks in international management. According to Buckley (2011), the development of the global factory provided new opportunities for new locations to enter the international business and emerging countries, such as India, are subcontracting production and service activities from the brand-owning multinationals. At the same time, multinationals retain the control, for example, at Company A the headquarters’ Operations team is planning to assume end-to-end responsibility for the supply chain after reviewing the local processes that can be integrated into a desired structure. Chopra and Sodhi (2004) have already showed that by understanding the variety and interconnectedness of the supply chain risks, the managers can tailor balanced, effective risk-reduction strategies. Then, the risk management as such can be relegated to a unique platform wherein the Chief Risk Officer (CRO) would be expected to rigorously question the assumptions underlying the business strategy and validate the same using benchmarking data, competitive data, and sector analysis. We suggest the following propositions:
Multinational companies operating in emerging economies are more likely to seek a greater control of their subsidiaries and favour tighter integration instead of loose structures.

Managerial perceptions play a critical role in determining the interconnectedness of the supply chain risks in emerging countries and may therefore underpin the sustainability of operations.

The risk management decisions tend to be holistic, qualitative, and subjective rather than assessment-driven, quantitative or adherent to predetermined criteria.

This paper indicates that the investments in India and other high-risk emerging countries are driven by their potential for growth and subsequent returns, rather than a judicious risk evaluation and rational criteria. For instance, the threat of operational risks to organizations in India is known and supply chains are often vulnerable (Chopra, Meindl, & Kalra, 2011; Reddy & Raju, 2013) and still companies take only limited precautions resulting in increased risks and even losses. A recent, comprehensive survey – India Risk Survey 2013 – launched by the Federation of Indian Chambers of Commerce and Industry (FICCI & Pinkerton, 2013) aims to vindicate this risk prevalence and attempts to recognize the risk factors faced by the public and private companies while operating in India. The widely recognized FICCI report 2013 regarded the operational risk as focusing on the risks arising from people, systems, and processes through which the company operates, and has now made an operational risk assessment in the dimensions of information and cyber security, corporate frauds, business espionage, and intellectual property theft, or in other words, technology breakdown, compliance failures, legal exposures, and process disruptions. Supply chain fraud can cover the entire breadth and depth of an organization, affecting activities and relationships both inside and outside the organization. Implications for managers are clear in that they need training on systematic risk assessment and reduction. Moreover, the understanding of measures that promote awareness and help build an anti-fraud culture is imperative. Future research that provides insights into the phenomenon, as well as and conclusive evidence and propositions would be of interest.

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References


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