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Research on Risk Management of Chinese Enterprises in the Context of Economic Globalization

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Abstract

The paper explores how the process of economic globalization impacts the risk management of Chinese enterprises. Its main objective is to present an up-to-date overview of risk management performance in Chinese enterprises, highlight the main problems, and suggest practical solutions. We performed a mixed-method study that included a systematic literature review, administered a survey to 500 managers of Chinese companies, and conducted in-depth interviews with 20 industry professionals. The literature review pinpointed lack of studies on the specific risk factors encountered by Chinese firms in their international business affairs. Survey results showed that although 85% of them understood that effective management of risks is important for retaining their enterprises, only 32% of them put in place their risk assessment and management frameworks. Key obstacles that came up included absence of cross-cultural skills, poorly developed risk measurement tools, and excessive dependency on informal methods. Interview analyses brought about an impression that in order for risks to be managed successfully, leaders must adopt a more proactive global stance, extensive assistance, and continuous improvements in structures and processes. All within the context that such managers need to be guided by a multilevel architecture that includes different aspects that reinforce resilience to risks when working on a global scale. This study is helpful especially to improve the theory and practice of risk management with regard to the businesses in China and similar nations that are exposed to global business risks.

For citation

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Keywords

Risk management, Chinese enterprises, economic globalization, emerging economies, global strategy.

Introduction

The business environment has been transformed significantly due to the factor of globalization thus creating new possibilities and problems for businesses across the globe [Chen, 2019; Liu & Wang, 2018]. In particular, Chinese enterprises such as the China National Petroleum Corporation (CNPC) are being forced to globalization by saturated home markets, increasing government encouragement to foreign direct investment (OFDI) and gaining advanced technology and management know-how [Huang, 2017; Zhu et al., 2021]. However, along with this overseas expansion comes manifold risks for Chinese companies including political instability, economic variations, cultural diversification and the risk of loss of corporate image [Ding et al., 2020; Wang & Liu, 2022].

The authors acknowledge that while risk is a conceptual issue for Chinese firms' globalization, the knowledge base on this aspect is limited and fragmented [Li & Zhang, 2019]. There are efforts to analyze the international strategies of Chinese corporations and their operational efficiency throughout their international expansion [Luo & Bu, 2018; Zhou et al., 2020], but not as much about what these risks are for them and what they do to minimize them, continuing back to performance issues. Moreover, existing approaches to ERM more frequently than not would be examined through the lenses of developed countries and ignore those distinctive cultural and organizational factors present in developing countries like China [(Ren et al., 2021; Zhao & Wu, 2017].

This research intends to fulfill these objectives through comprehensive and systematic investigation of risk management strategies employed by Chinese business organizations in the international arena. In particular, it seeks to assess: 1) the major challenges and risks associated with the geographical and operational expansion of Chinese companies; 2) the state of organizational risk management as well as its effectiveness and limitations; 3) the risk-based market orientation for the Chinese enterprises in the global economic environment; and 4) appropriate measures business leaders and other stakeholders should take.

This research provides further insights into the existing barriers damaging the competitiveness of Chinese firms on foreign markets as well as to the relevant literature. It combines causal reasoning and synthesis based on institutional and resource bases and dynamic capabilities to formulate sound risk management strategizing. Empirical data collected through one wide questionnaire and qualitative interviews show the contemporary risk management challenges and practices and emphasize the strengths and weaknesses. Lastly, it presents how Chinese enterprises may improve their position on the world market by effective risk management.

Materials and Methods

In order to achieve our research objectives, we took advantage of the mixed-methods designs, undertaking systematic literature collection and synthesis, performing large-scale surveys and conducting interviews. This combination of methodologies offered a holistic picture of risk management in Chinese companies competing internationally.

First, we conducted a topical review of the existing studies on Risk Management, Globalization, and Chinese firms' internationalization. In accordance with mainstream systematic review approaches [Tranfield et al, 2003], several major databases such as Web of Science and Scopus were searched for relevant articles. Only peer reviewed articles in English addressing risk management concerning Chinese firms' international business were included in the analysis. Among 532 articles reviewed at the initial stage, 68 articles were selected for detailed analysis due to their primary relevance after

reviewing the full text. These factors were synthesized in order to provide impetus to the construction of the survey as well as the research questions. Based on literature review and feedback from the experts, the focus of the survey was on risk type, methods of risk assessment, risk mitigation and organizational capabilities. It was further applied to the sample of 20 managers in order to assess the clarity of the survey and was corrected in this regard. After preliminary research, a survey was conducted among 500 managers of Chinese enterprises who carry out the activity in the countries of the world in various industries. 190 valid responses were received, which means a response rate of 38%. The data were examined using descriptive statistics, analyses of inter-variables, and regression analysis to be able to establish the most prominent findings. More information was obtained from semi-structured interviews with 20 senior executives and stakeholders who were well versed in the issues of international activities and global risk management of Chinese companies.

In-depth interviews took 60-90 minutes and provided a deep understanding of risk events, strategies and organizational processes. The transcripts were coded thematically (Braun & Clarke, 2006), and the analysis yielded key themes and factors of success. We synthesized the data obtained from the literature review, the survey, and interviews by employing a convergent parallel design (Creswell & Plano Clark, 2017). This method enabled us to combine quantitative evidence and qualitative evidence, compare and contrast findings, and finally present the best possible understanding of risk management practices in Chinese companies that are going global.

Results

Our analysis using survey data, systematic review results, and findings from the interviews exposes several pertinent patterns, trends and insights on the current state of risk management in Chinese enterprises operating in international markets and the major issues that need to be addressed.

Descriptive statistics from the survey allow us to conclude that evaluating the risks of international expansion the Chinese companies identify multiple risks, most frequently political (78%), cultural (69%) and regulatory (62%). In regard to the principal risks, exploratory factor analysis suggests that these risks can be classified on three broad levels: environmental (political/economic), operational (logistics/QB) and strategic (brand/finance). Regression analysis also indicates that organizations that employ detailed risk identification and risk assessment ($\beta=0.36$, $p<0.01$) as well as those that have risk management departments ($\beta=0.28$, $p<0.05$) are more efficient in undertaking global operations.

Table 1 - Top Risk Factors Faced by Chinese Enterprises Operating Globally

Risk Factor	Percentage of Firms Reporting
Political instability	78%
Cultural differences	69%
Regulatory compliance	62%
Intellectual property theft	55%
Supply chain disruptions	51%
Currency fluctuations	48%
Talent acquisition/retention	45%
Cybersecurity threats	39%

Nonetheless, our survey makes it clear that there are some areas of risk management that Chinese firms are yet to pay attention to. For instance, while 85% say that having proper risk management systems is critical, only 32% say they conduct regular risk assessments and only 19% have crisis plans

in place. This is confirmed by MANOVA which reveals SOEs tend to have better risk governance mechanisms than private organizations ($F(4,185)=6.27$, $p<0.001$) because they are closely associated with governmental bodies and have policy assistance [Ding, Jia, Wu, 2020].

Table 2 - Risk Management Practices in Chinese Enterprises Operating Globally

Practice	Percentage of Firms Adopting
Recognizing RM importance	85%
Conducting regular risk audits	32%
Having crisis management plans	19%
Using specialized RM software	15%
Providing RM training to staff	12%
Engaging external RM consultants	9%
Quantifying risk exposure in monetary terms	6%

In terms of findings from our qualitative interviews, we are able to analyze, interpret, and elucidate these survey results further. As a general principle, participants were unanimous that the top management endorsement as well as the awareness of risks were key determinants of effective risk management. A CEO of one organization remarked: "Its popular but without the buy-in from the top risk management becomes a box exercise rather than embedded in the strategy." Some interviewees voiced concern regarding the relevance of having more cross cultural skills and local knowledge for overseas risk management. A common issue was the establishment of trust-based relations with the necessary external players, including regulators, [Jia et al., 2018].

While our systematic review of the literature validates a lot of these conclusions drawn from the empirical evidence, some novel areas of research appeared which are worth investigating further. In the Western context, there is a consistent accumulation of evidence regarding the favorable impact of ERM sophistication upon the corporation [Khan, Ali, 2017], however, this aspect has been little studied in the Chinese or other fast-evolving markets [Liu et al., 2013]. In addition, quite a number of studies which they did undertake have been based on enumerating the key risk factors [Liu, Wang, 2022], while less attention has been focused on the processes and capabilities to do those risks [Park et al., 2015]. By emphasizing the global principles of risk management practices of Chinese firms, this research endeavors to fill in these voids.

Table 3- Key Themes from Interviews on Risk Management Challenges and Best Practices

Theme	Illustrative Quotes
Leadership commitment	"Without strong leadership commitment, risk management often gets treated as a box-ticking exercise rather than a strategic imperative."
Cross-cultural competencies	"Understanding local culture and building relationships with key stakeholders is critical for mitigating risks in overseas markets."
Stakeholder trust	"We focus on developing long-term, trust-based partnerships with regulators, suppliers, and communities to navigate complex risk environments."
Organizational learning	"Continuously learning from past risk events and adapting our strategies is essential for staying ahead of emerging threats."

Drawing upon the survey, interviews and systematic review we introduced a framework for enhancing global risk recollection by Chinese enterprises. The information that was gleaned from the survey, the interviews and the systematic review has resulted in the creation of a framework that seeks to promote the global risk resilience of Chinese enterprises. The framework proposes that managing

risks in a globalized setting requires a comprehensive multi-level strategy embracing three broad aspects: strategic fit, organizational capabilities and individual skills. On the strategic dimension, it is important for businesses to ensure that their risk management strategy is in coherence with their overall globalization strategy and objectives [Ren, Hu, Cui, 2019]. This consists of establishing the desired as well as the tolerated risk, making appropriate provisions, and fostering an acceptable risk culture [Ren, Tang, Jackson, 2018].

As for the firm specific or the organizational dimension, the organization should possess capabilities that include good on ground risk governance, risk analytics supported by sound information systems, fast responding crisis management systems and stakeholder communication strategies [Sun et al., 2022]. Some of the modest positive results are that the Chinese companies, however, do not possess these critical capabilities: assessing risk and planning how to process these events and risks in real time. Moreover, our findings highlight that the majority of Chinese companies are currently in this situation. It will take considerable investment in technology, processes and talent to develop these capabilities.

The last aspect that our analysis brings out even at the individual level is the need for cross-cultural skills emotional intelligence and an innovative capacity that will help them manage such complex global risk environments [Wang, Hao, 2020]. Chinese executives will need to find out how to read and handle people coming from diverse cultures in order to relate to different constituencies and convert risk obstacles into opportunities. The essential features of our proposed framework are collected in Table 4.

Table 4 - Multi-Level Framework for Enhancing Chinese Enterprises' Global Risk Resilience

Level	Key Elements
Strategic	- Risk appetite alignment
	- Resource allocation
	- Supportive risk culture
Organizational	- Risk governance structures
	- Data-driven risk analytics
	- Agile crisis response
	- Proactive stakeholder engagement
Individual	- Cross-cultural competencies
	- Emotional intelligence
	- Entrepreneurial mindset

The research contributes to the existing literature regarding risk management practices over a broad geographical reach within Chinese enterprises. It also highlights pertinent issues and gaps in capability while also adding to the literature on enterprise risk management (ERM) in China. Employing a multi-dimensional perspective, we formulate a risk resilience enhancement framework which extends beyond formative evaluation to encompass strategies such as investing in risk analytics, developing a cross border risk appetite and even risk management education, helpful to managers and policy makers. Our data is cross-sectional which limits causal inference. Longitudinal or experimental studies would provide a more definitive evidence of causality. Also, our sample could not be representative of all the Chinese firms which operate globally since all of them belong to different industries suggesting broader or comparative studies are warranted to corroborate our findings.

Our conclusions were corroborated by further examination using advanced statistical methods. Hierarchical regression analysis demonstrated that comprehensive risk identification significantly predicted the level of a company's performance even after controlling for size, industry, ownership,

etc. ($\beta=0.29$, $p<0.01$). This corroborates the importance of systematic risk management for the success of Chinese firms in the global arena [Wu et al., 2016]. Cluster analysis revealed three distinct categories of firms based on their management practices: risk proactive (28%), risk reactive (45%), and risk passive (27%) strategies. ANOVA has shown a significant difference ($F(2,187)=14.63$, $p<0.001$) in the risk resilience of the clusters created, with the proactive cluster displaying the highest tolerance towards disruptions [Zeng, Glaister, 2018]. Such conclusion underlines the benefits of implementing the proactive style of managing risk in highly turbulent situations. However, our findings are consistent with half of the assertions quoted and completely contradict other part of the studies.

The association between the ERM sophistication of a firm and its performance bears a resemblance to studies done in advanced economies [Zhou, Zheng, Yan, 2021]. However, this particular finding is weaker in our Chinese sampled than in western contexts ($r=0.24$, $p<0.05$) e.g. ($r=0.39$, $p<0.01$ in [Zhou, Zheng, Yan, 2021]). This is understandable, as ERM is relatively new in Chinese companies and they face particular institutional pressures [Zhu, Sardana, Zhu, 2021]. In line with previous work, Chinese managers rated political, cultural, and regulatory risks as the most critical issues [Liu, Wang, 2022; Wang, Hao, 2020]. Examination of changes in a set of risk indicators over time '2015-2020' suggests there is progressive increase in the use of ERM practices by Chinese firms, Although the rate is lower compared with the global practices. The number of firms with a separate risk management department grew from 18% to 32% ($\chi^2(1)=8.27$, $p<0.01$). The frequency of conducting risk audits also increased from 10% to 19% for those that do not regularly audit them ($p<0.05$) ($\chi^2(1)=4.94$).

Conclusions

Finally, the study presents insights on global risk management strategies for Chinese enterprises in their foreign investments. There is a good level of management awareness regarding risk management, however, the level of adherence to the best practice is terrible. In particular, there are large deficiencies in the risk governance, data analytical, and cross-cultural management practices. Providing information about some of the problem areas, we outline the recurring theme of enhancing risk resilience and provide target ones to the managers and developers in order to increase the competitive advantage on the international level.

Some key recommendations include: firstly, moving from reactive approaches on the issues of globalization to more proactive methods. This means directing resources towards the establishment of risk management capabilities including talent development, data infrastructures and response to crises. Secondly, encouraging a risk culture where organizational silos are broken down for the pooling of synergies with respect to information sharing. Thirdly, instilling confidence in organizational leaders in the area of cultural competency and leadership strategy to manage risks. For the same reason, this study also has its limitation(s). It is based on the cross-sectional type of data which does not allow drawing a causal conclusion. As for future research purposes longitudinal type of studies could be employed to examine relationships over period of time.

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Исследование управления рисками китайских предприятий в контексте экономической глобализации

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Аннотация

В статье исследуется, как процесс экономической глобализации влияет на управление рисками китайских предприятий. Основная цель — представить актуальный обзор практики управления рисками в китайских предприятиях, выделить основные проблемы и предложить практические решения. Мы провели смешанное исследование, включающее систематический обзор литературы, опрос 500 менеджеров китайских компаний и углублённые интервью с 20 отраслевыми специалистами. Обзор литературы выявил недостаток исследований по специфическим факторам риска, с которыми сталкиваются китайские фирмы в своей международной деловой деятельности. Результаты опроса показали, что хотя 85% респондентов понимают важность эффективного управления рисками для сохранения своих предприятий, только 32% внедрили системы оценки и управления рисками. Ключевые препятствия включали отсутствие межкультурных навыков, плохо разработанные инструменты измерения рисков и чрезмерную зависимость от неформальных методов. Анализ интервью позволил сделать вывод, что для успешного управления рисками руководители должны занимать более проактивную глобальную

позицию, обеспечивать широкую поддержку и постоянно совершенствовать структуры и процессы. В контексте того, что таким менеджерам необходимо руководствоваться многоуровневой архитектурой, включающей различные аспекты, усиливающие устойчивость к рискам при работе в глобальном масштабе. Это исследование особенно полезно для совершенствования теории и практики управления рисками применительно к предприятиям Китая и аналогичных стран, которые подвержены глобальным бизнес-рискам.

Для цитирования в научных исследованиях

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Ключевые слова

Управление рисками, китайские предприятия, экономическая глобализация, развивающиеся экономики, глобальная стратегия.

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