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RECTOR'S MESSAGE



Congratulations Faculty of Business and Management of Universiti Teknologi MARA Cawangan Kedah, Kampus Sungai Petani on the publication of the 6th Volume of FBM Insights!

I am very pleased to know that there are more than 40 authors and more emerging issues are being presented in this latest volume of FBM Insights. This portrays that UiTM Kedah Branch is actively involved in disseminating business related information and knowledge to the public.

I hope this bulletin can provide an opportunity for the Faculty of Business and Management staff to produce more academic materials and develop their skills in academic and creative writing. Furthermore, more initiatives should be launched to support this life-long process.

Again, well done to the Faculty of Business and Management and those who were involved directly and indirectly with the publishing of FBM Insights Vol.6. I wish FBM Insights all the best and continue to grow and move rapidly forward in the future.

Prof. Dr. Roshima Haji Said
Rector
Universiti Teknologi MARA (UiTM)
Cawangan Kedah



السلام عليكم ورحمة الله وبركاته

Assalamualaikum warahmatullahi wabarakatuh

Welcome to the 6th Edition of FBM Insights 2022. This edition boasts 40 articles by the academics of Faculty of Business and Management UiTM Kedah Campus. The topics involved a broad range of business and management knowledge. Congratulations to all authors for your endless support and valuable contribution to the newsletter.

FBM Insights was mooted in 2020 and it came about with the intention to encourage and improve research writing activities among the lecturers of UiTM Kedah's Business and Management Faculty. As the editions progressed, the support from the academics has not faltered. I hope the support continues in editions to come.

I would like to congratulate the editors and the committee for the hard work and perseverance in managing the newsletter. All the best to everyone and thank you again.

Dr. Yanti Aspha Ameira Mustapha
FBM Insights Advisor

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DIGITAL RISK ON INTERNATIONAL BUSINESS

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ABSTRACT

The digitalization era that brings about an increase in the digital connectivity has bring great advantage to the expansion of international business in the past decades. Many benefits already sought by multinational enterprises (MNEs) from the expansion, however the widespread in the digital world does bring about challenge risk of its own. With the widespread of digitalization, there is an increase need to a proper risk management technique to protect companies having their operations abroad. In this article, focus made on the explanation of the three (3) types of digital risks generally faced by MNEs pertaining to digitalization that are the digital interdependence risk, global information and security risk and also the digital regulatory complexity risk.

Keywords: digitalization, digital risk, digital connectivity, risk management, multinational enterprise (MNEs)

INTRODUCTION

Globalization and the era of digitalization offers a huge opportunity for multinational enterprises (MNEs) to venture into global market effectively. As time goes by, and with the pandemic of Covid 19, digitalization has become an accelerator for firms to adapt to changes in global market including embracing in modern technologies that is very much related to today's modern lifestyle, work pattern and business strategies(Amankwah-Amoah et al,2021).With digitalization, firms have reaped opportunities such as obtaining global resources, able to reach foreign customers easily and helping business being more efficient in global operations. Many studies on risk for businesses abroad focused on political, financial and transactional risks (Rugman, 2019) without adding the risk in digitalization in their studies. However, with the expansion of digitalization, it also brings unique risks to businesses venturing abroad.

DIGITAL RISKS

Risk is defined as a probability of a negative occurrence caused by external or internal factors which may threaten business activities. As for risk in international business, it is very much related to digital risk that may cause disruption in the country where the MNEs operates and may eventually gives impact to the companies' operation. Digital connectivity today is made possible through digital platforms, information and communication technologies (ICT), internet and intranet access, and other digital technology such as big data, cloud services, data analytics and intelligence. These connectivity helps in making it easier for cross border transactions and transmission of valuable ideas and innovation around the world (Banalieva & Dhanaraj, 2019; Hennart, 2019; Kano, 2018; Tallman, Luo, & Buckley, 2018). Despite benefit gained from digital

connectivity mentioned above, it is worth to note the three (3) types of business risks MNCs may face in conjunction with excessive usage of digitalization that are digital interdependence risk, global information and cyber security risk and digital regulatory complexity risk.

i) Digital interdependence risk

Digital globalization makes international companies more dependent on others, thus making them subject to more contagion effects from all risks facing them and partnering units (McKinsey, 2020). This risk may be related to unexpected breakdowns, contagions, interruptions caused by digital interconnectivity between the MNEs and all its business partners, vendors or suppliers in various countries. The more connected there is between all the parties involved in the world of digitization, the negative impact out of it will spread out faster.

ii) Global information and cyber security risk

Global information and cyber security risk on the other hand referring to the potential loss or harm that may arise due to data security that is not secured enough to protect confidential information in which it may result in cyber-attacks or data breaches. MNEs in global market nowadays does not have any options to opt themselves out from the usage of digitization as contributes to the firm's efficiency. The widespread of digitization, introduction to new technologies bring about risk in which companies are vulnerable to security threats such as breaches, fraud, disruption of services and failure to meet service levels. Many MNEs have suffered from security breaches that comes from internal and external sources which is very much related to risk for international business (World Bank,2016).

iii) Digital regulatory complexity risk.

MNEs may face challenge in terms of digital regulatory complexity risk due to different perspectives relating to procedures in digitalization across countries, different rules and standards imposed to MNEs and also incompatibility for MNEs to adhere to all the rules and standard set to them. Due to the need to cover data protection that is increasing, MNEs may found themselves trapped in different and heightening regulations imposed to them from the visiting country. There are countries that increase the scope of regulations with scrutiny details being placed on customer protection, digital taxes, information security and national security. There are countries that would require companies to use servers physically located within their borders to process and store data generation and the variations on type of law practiced in different country may also complicate the way business practiced and its effect to the digital risk complexity.

CONCLUSION

The expansion in the usage of digital connectivity has bring about many advantages to the way business being carried out nowadays. However, digitization itself brings about possibilities of risks that received little attention especially in the area of international business. Unlike other types of risks such as political, financial and transactional risks, digital risks are yet to receive lots of attention to be look into by the MNEs. This paper is hoped to provide an insight to the digital risks associated to in the era of digitization and what are the actions can be taken by MNEs in mitigating the risk.

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