Editorial

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Biographical notes: Karen Watkins obtained her PhD in Finance from Erasmus University Rotterdam in May 2007. Her research interests are corporate governance, financial crises, and health economics. She has published around 20 articles in journals such as the *International Journal of Corporate Governance* and *Frontiers in Finance and Economics*, and is the author of the book entitled *Macroeconomic Crisis and Firm Performance*. She is affiliated to the Economics Intelligence Research Centre (CIIE), and teaches bachelor and postgraduate economics and finance at UPAEP, Mexico. She has promoted eight theses both in Mexico and The Netherlands, one of them awarded by IMEF-Deloitte. She is a member of the Mexican National Research System (SNI) and the EURO Working Group on Financial Modelling.

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In its broad term, risk management deals with identifying threats and taking actions in order to avoid negative outcomes. In an uncertain international financial world, all stakeholders are concerned with risk management. By stakeholders, we refer to those agents involved in one way or another with companies: equity holders, creditors and other capital suppliers, employees, consumers, suppliers, and the government. Particularly in times of crisis, when risk levels and expropriation of stakeholders are more severe, effective risk management strategies rise in importance.

Not only enterprises, but also individuals are interested in managing their household financial risks. There are several steps involved in successful financial risk management, which can be summarised as:

1. recognising and measuring credit, market, and liquidity risks in terms of economic losses
2. visualising risks through a portfolio framework; this leads to the importance of diversification
3. incorporating in the analysis the possibility of tail risk; this is crucial particularly during crisis episodes.

Financial risk management is a complex duty; its effectiveness depends greatly on the ability to measure risk. There are many factors involved and uncertainty; therefore, financial experts constantly revise and produce new models in order to evaluate and quantify risk. This special issue of the *International Journal of Banking, Accounting, and Finance* deals with international financial risk modelling and management. The first four papers relate with entrepreneurial and market risks; the last section is concerned particularly with household financial risks. All papers have been accepted at the 44th Euro Working Group on Financial Modelling Meeting (7th–9th December, 2009). They were selected through a rigorous double-blind referee process.

In the first paper, Lindblom, Sandahl, and Sjögren refer to capital structure decisions in large Swedish firms and the importance given to diversification in order to reduce the risk of bankruptcy. Through a top-management oriented survey, the authors conclude that business risk is relevant for all companies' capital structure choices. According to their findings, these firms take balanced financial postures, which suggest a revised trade-off theory or an extended pecking order theory.

In the second paper, Genriha, Pettere, and Voronova model entrepreneurial insolvency risk management in Latvia, through binary logistic regression analysis. Consistent with the fact that risk modelling is multifaceted and dynamic, the authors test eleven different models and conclude that the three-factor model they propose is more reliable than the others (for the Latvian case). For this model, they consider profit before taxes over equity, net turnover over total assets, and long term liability over total assets. For a company to become insolvent, the Basel II definition is used, meaning that a company has more than ninety days of delay in obligations' payments.

In the third paper, Gupta and Wang concentrate on the importance of novel hedging instruments (mortality bonds, survivor swaps, and survivor bonds) in risk management tactics for pension and/or insurance companies. In addition to market risk, these firms face longevity risk, due to the fact that mortality rates are stochastic. The authors propose a multi-period shareholder value maximisation framework to evaluate risk and hedging opportunities, from a provider's point of view.

The fourth paper relates with financial market integration, which has increased dramatically in the last years as a means to diversify portfolios and reduce risk. Kobialka and Koivulehto study in particular international cross-listings on CEE stock exchanges. They conclude that markets are not fully integrated; this segmentation might be a consequence of lack of liquidity of the stocks, trade risk, and corporate governance problems.

The last paper deals with local bias dynamics in Swedish individual investors' portfolio choices. According to the findings, investors are risk averse and prefer to hold stocks they are familiar with, even though they do not gain abnormal returns. Through panel data analysis, Mavruk shows that this bias is greater in women than in men, although not significantly different according to age. In addition, investors tend to buy shares from big companies with attractive dividend policies, which indicate the conventionality of their preferences.