POLITICAL (R) IN A HIGHLY RISKY ENVIRONMENT

ADEL AL KHATTAB

Al Hussein Bin Talal University ,Jordan
E-mail: adel.alkhattab@yahoo.co.uk

Abstract -
It is frequently and paradoxically stated that Political Risk Assessment (PRA) is not undertaken systematically. The reason for this discrepancy lies not in a lack of interest to systematically assess PR, but rather in the absence of a feasible way to do so. This study aims at investigating PRA practices of foreign companies in highly charged atmosphere of risky environments. Both questionnaire and interviews are conducted as research tools. The findings could provide a detailed risk and suggestions of managing them.

Keywords - Political Risk, Assessment, International Companies

I. INTRODUCTION

Companies operating internationally must deal with dramatic changes in the political environment of the host country. Governments may affect the foreign-owned companies through inconvertibility, expropriation, nationalisation and contract repudiation. More drastic effects could be war damage and civil strife damage. Consequently, the assessment of PR is increasing in importance (Alon & Martin 1998; Hong et al 1999). But it is also frequently and paradoxically stated that Political Risk assessment (PRA) is not undertaken systematically (de Mortanges & Allers 1996). The reason for this discrepancy lies not in a lack of interest to systematically assess PR, but rather in the absence of a feasible way to do so (Simon 1982). Thus, the basic weakness inherent in PRA is the lack of clarity in the conceptualisation of the term "PR" (Alon & Martin 1998).

While most of previous studies were conducted in the context of America and European countries, investigating the practice of PRA in irrational environments is needed to flesh out the skeleton. Therefore, the purposes of this study are to investigate how PRA is undertaken in a highly charged atmosphere of (R)y environments? and what variables are to be assessed in such environments? most importantly how such assessment should be undertaken? To develop this study, it would be conducted in the context of Jordan. Jordan is chosen because it is in the heart of Middle East, which witnesses unprecedented level of tension, the US campaign against Iraq, the Palestinian- Israeli conflict, etc.

II. LITERATURE REVIEW

A study of US companies made during the 1960s and 1970s found little evidence of a systematic approach to PRA (Al Khattab, 2015). During eighties there were also large numbers of companies which did not rely on systematic means of assessing PR (Kobrin 1980). In nineties, a study of Dutch companies showed that the conceptualisation of PRA practices was also not very high (de Mortanges & Allers 1996, p.315).

There has been little consensus on a clear definition of PR (de Mortanges & Allers 1996, p.303), except that it concentrated on adverse governmental actions (Fitzpatrick 1983). Three problems were inherent in the early definitions. First, the scope of PR was "too narrow" and led to inappropriate conceptualisation, wrong selection of data, improper choice of analytical tools, and misinterpretation of the results (Alon & Martin 1998). Second, the assumption that PR necessarily exerts negative influences on the firm is not always true (Fitzpatrick 1983). Many researchers have challenged the assumption that the orientation of PR is necessarily negative. Torre & Neckar (1988 cite Alon & Martin 1998, p.11; Waring & Glendon 2001) argued that PR contains both negative and positive variations. Third, the emphasis of government actions and political events distracts the analyst from other causes of PR (Alon & Martin 1998, p.11). Fitzpatrick (1983) suggested that PR should be viewed as a process that changes over time. Further, PR can be caused by internal, external, social, and governmental sources (Simon 1982).

However, Simon (1982, p.68) defined PR as "governmental or societal actions and policies, originating either within or outside the host country, and negatively either a select group of, or the majority of, foreign business operations and investment." As a starting point this definition would be used because it provides a more complete conceptualisation of PR facing MNCs in their respective business environment (Oseghale 1993, cite Alon & Martin 1998, p. 11)

In short, PR should include, at least, the following elements:

- Discontinuities: drastic change in environment.
- Uncertainty: unanticipated changes.
- International impact: both conflictive and cooperative events and processes.
- Political impact: government and other political bodies.
- Business impacts.

When company management acknowledges the value of PR analysis, and deliberately assess PR, their methods of PR forecasting can be divided into:

- Qualitative unstructured methods
- Qualitative structured methods
- Quantitative methods

1. Qualitative unstructured methods

Qualitative unstructured methods can be divided into two principal variants relying either on the competence of internal managers or external experts (Rummel & Heenan 1978).

Judgment and intuition of managers "grand tour"

In this approach managers base their evaluation on intuition and knowledge of the country. This type of investigation sometimes only contains selective information, which does not consider factors that could be disastrous for the company (Lindeberg & Morndal 2002, p.28). Further, there are, according to Kobrin (1982) inherent sources of bias when relying on internal sources.

Experts' opinions "old hand"

In this approach, companies acquire information and advice from outside consultants who are experts of a certain area or country (Rummel & Heenan 1978). Examples of sources can be advisory councils of foreign businesspeople, banks, local government officials, academics, former politicians, seasoned educators, and journalists. Obviously, even experts make mistakes and do not always predict actions very well. There can also occur conscious and unconscious biases of experts (Lindeberg & Morndal 2002, p.28).

2. *Qualitative structured methods*

Three of the most used methods are: Delphi technique, standardised checklists, and scenario analysis.

Delphi technique

This approach includes a group of experts who is called upon to give their opinion on factors that affect the political environment of a country such as: political stability, attitude towards foreign investors etc (Rummel & Heenan 1978).

Standardised checklists

Another structured approach for both identification and analysis of (R) is the use of checklists. These can include different factors, but the idea is for the manager to systematically review the items in the list (de Mortanges & Allers 1996). According to Ting (1988), checklists or other simple ranking methods are frequently used methods for an initial screening of a potential host country (Lindeberg & Morndal 2002, p. 30).

Scenarios

This approach is based on the formulation of several possible scenarios for a certain country. An example of a scenario can be the arrival in power of a political group, and the scenario would be built according to the groups' attitude toward foreign investment. Next, probabilities can be given to the alternatives to provide the management with a base for decision. A common approach is to make three different scenarios representing a pessimistic an optimistic and a most likely outcome (Flanagan & Norman 1993 cite Lindeberg & Morndal 2002, p.31).

3. Quantitative approaches

Lately, companies have begun to use quantitative methods to provide a figure for the PR. Some companies find that quantitative methods reduce the subjectivity bias of the qualitative methods (Lindeberg & Morndal 2002, p.31). It could be argued that since subjective opinions can be quantified, the quantitative approach is not necessarily objective. However, there is several different quantitative methods and even more variants of each of these methods. The most common approach is to predict a probability for the occurrence of a certain event using several measurable factors that work as leading indicators. For example, a high inflation and a low economic growth might indicate an increased probability violent unrest.

The limitation of this approach assumes that there is a linear relationship between past and the future conditions; however, it is possible that there could be a curvilinear or that the future may not be an extension of the past (Desta 1986, p.49). Another limitation is the accuracy of the data applied to the analysis (Waring & Glendon 2001). External environments change quickly, but the data of governmental agencies and international organisations often require a period before being updated.

More recently, as global companies have become more aware of their PR exposure, the demand for PRA companies has increased (Alon & Martin 1998, p.11). But PRA models used by PRA companies have several deficiencies too. First, the PR definitions used by these organisations vary (Desta 1986; Alon & Martin 1998, p.11). Second, the focus of PRA is different (Desta 1986; Alon & Martin 1998, p.11). For example, Institutional Investor focuses on creditworthiness while Business Environmental (R) Index concentrates on adverse reactions toward any foreign business activity. Finally, many companies concentrate on the symptoms, such as the number of demonstrations or civil disorders, instead of the causes of PR (Alon & Martin 1998).

III. METHODOLOGY

This study aims at investigating PRA practices of foreign companies in highly charged atmosphere of (R)y environments.

The focus would be on:

- Ranking PR elements according to their importance to foreign companies in (R)y environments.
- Investigating how PRA is undertaken in such environments as well as factors affecting the way

the assessment process is organised and executed.
- Investigating the implementation of PRA practice to facilitate the integration into decision-making processes.
- Investigating whether there is a relationship between the nationality of the company or the type of industry on taking up a particular technique for assessing PR.
- Developing a framework for PRA at the company level.

Traditional studies assessing PR and its relationship with foreign investment have contemporarily taken into consideration a variety of data from different countries. This generic perspective has led to a failure in determining reliable assessment of the dimension of PR (Kobrin 1979, p.78; Erol 1985; Hong et al 1999). Erol (1985) recommended that PRA must address the peculiar characteristics of the host country. Therefore, this proposed study would be conducted in the context of Jordan. In addition, Jordan is chosen because it is both "viewed as one of the major players in the economic and political stability of the Middle East region" (Naser 1998) and is in the heart of volatile Middle East.

Whether the predominantly practice of PRA utilised by international companies is workable in a highly charged atmosphere of (R)y environment?

There are major obstacles to the development of theory in PR (Simon 1984, p.123). The author maintains that with each additional international crisis, the demand for (R) analysis proliferates even though no one yet has established a proven track record for forecasting such (R). Such a case study could aid in mapping out the nature of relationship between variables to enhance the PRA practices.

This thesis would represent the first study of PRA ever to be carried out in Jordan. It would also represent the first full-length treatment of PRA to be conducted in (R)y environment.

IV. METHODOLOGY

This study could use the descriptive methodology in the form of questionnaire to be filed out by a sample of foreign companies operating in Jordan. This stage aims at investigating how uncertainty impact the decision makers view of how PR affect organisation. It aims also to examine links between organisational characteristics to see if there are any conclusive pointers which indicates those organisations which are more likely to utilise a PRA function. Thus, this study would compass both the exploratory and descriptive methodology. The exploratory method is the prerequisite for preparing the questionnaire while the descriptive method to produce accurate description characteristics without having to demonstrate that some relationships exist between these characteristics (Luck & Rubin 1987).

The representative sample would be taken from the whole population. The sample will consist of:
- Foreign working companies operating in Jordan.
- Foreign regional offices existing in Jordan.

In addition, the study would contain as much institutional characteristics of the companies as possible such as the sector the company work in, legal entity, years of experience, nationality, etc.

V. STUDY LIMITATIONS

The lack of a clear definition and the scope of the PR have prevented researchers from contributing to the theory (Hong et al 2001). Further, five preliminary studies have been conducted regarding PRA and two of them (French and Japanese) are unpublished papers.

FOOTNOTES

1. (R) terminology is usually used variably in PR studies. For example, PR assessment, PR analysis, PR estimation are frequently used loosely and interchangeably. Glendon & Mckenna 1995 cite Waring & Glendon 2001, p.22) referred this ambiguity to the recursive nature in everyday speech of terms such as 'assessment', 'analysis', 'estimation' and 'evaluation' which creates fertile ground for ambiguity and confusion. For this study, PR Service's definition will be used as a starting point. PR assessment is "an effort to determine the level of (R) or the probability of losses, given the character of the situation" while PR analysis is "the effort to determine the causes or sources of (R) and to map the relationships between causes".

2. As (R) is essentially a cognitive phenomenon (Glendon 1987 cite Waring & Glendon 2001, p.20), so-called "subjective" (R) is merely a convenient way of expressing the fact that some people share a, normative view of (R) which implies or seeks to suggest that (R) can be distinguished from biases (Waring & Glendon 2001, p.20). For this study, 'objective' (R) refers to a general agreement among (R) assessors about the nature and degree of a particular perceived (R).

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