THE USE OF POLITICAL RISK ASSESSMENT TECHNIQUES IN JORDANIAN MULTINATIONAL CORPORATIONS

Abstract

This paper describes and explains the use of political risk assessment techniques in Jordanian multinational corporations (MNCs).

A multi-method approach to collect data was followed. A self-report questionnaire was delivered by hand to the general managers of all Jordanian MNCs which were identified as operating internationally. Semi-structured interviews were used as a means of elaborating on the findings from the questionnaire.

The study identified the extensive use of heuristic political risk assessment techniques (due to their flexibility, simplicity and low cost). Scientific techniques, on the other hand, were used by only a minority of MNCs. As has been the case in earlier studies, flexibility, simplicity and cost considerations were all found to be influential in this regard.

However, the study also found that key decision makers in Jordanian MNCs believe that official data is subject to censorship and is therefore not reliable. This undermines the efficiency of using highly sophisticated scientific techniques. Since there are a number of other countries in the Middle East - and elsewhere – in which these considerations also apply, this finding has important implications for international businesses which operate in these countries, whatever their home country.

Keywords

Political risk; techniques; multinational corporations; Jordan; international business.

1.   Introduction

The purpose of this paper is to describe and explain the use of techniques of political risk assessment within Jordanian MNCs (i.e. corporations which are based in Jordan but which operate internationally). Comparison is made with earlier studies, which also investigated corporations of one nationality operating in different countries.

A survey strategy was chosen in order to describe and verify the relationship between the political risk assessment techniques used and certain corporation-specific characteristics. This approach is in line with earlier studies (e.g. Yazid, 2001; Hood and Nawaz, 2004). Semi-structured interviews were used as a means of elaborating on the findings from the questionnaire.

Political risk studies have focused mostly on developed countries. There has been much less effort directed to the subject in emerging markets, in spite of the fact that they have grown in importance as a destination for international investment (Meyer and Estrin, 2004). In particular, there has been a huge increase in the volume of investment in Asia, Eastern Europe and Latin America by both funds and individuals (Marshall *et al*., 2009).

There have been a number of studies of the business environment in Jordan and other Middle East countries which have dealt with issues which are either associated with or which contribute to political risk (e.g. Bilson *et al*., 2002; Hassan *et al*., 2003; Abumustafa, 2007). However, none of these studies has examined either the manifestation or causes of political risk assessment in either Jordan or the Middle East as a whole.

Although Jordan is viewed as one of the major players in the economically and politically volatile Middle East region (Anchor *et al*., 2006), few studies of political risk have been undertaken. This paper reports on one of the first pieces of research on political risk assessment to be carried out in Jordan. This study is also one of the first attempts to gain an insight into the political risk assessment techniques used by MNCs based in emerging markets.

Jordan has relatively few national resources, unlike some of its neighbours. This partly explains why, in spite of its relatively small population (6 million), it has suffered from high unemployment and extensive poverty (Knowles, 2005). Nevertheless, the country has remained politically stable. The King acts as both Head of State and Executive Head of

Government and there is a functioning, although weak, Parliament and also a weak civil society (Icon Group International, 2000; Wiktorowicz, 2002). This benevolent/authoritarian system of rule has lead to a certain degree of self-censorship and doubts about the reliability of official statistics (Business Monitor International, 2008). The political risks which face Jordanian multinational corporations (MNCs) are the same as those which affect all corporations in the Middle East region, especially the challenges arising from under-development, as well as terrorism. Jordan specific political risks tend to have their origins in economics rather than in politics per se and are lower than in many other Middle East countries (Standard & Poor's, 2010).

2.   Political Risk Assessment and its Techniques

The science of risk management has advanced considerably during the last two decades. Most managers now employ a toolkit of techniques to deal with risk exposures, but few are prepared to deal with the growth in political risk that today's new geopolitics presents. Political risk has been considered as one of the most important risks for corporations engaged in international business activities (Hood, 2001; Howell, 2001; Minor, 2003; Brink, 2004; Hood and Nawaz, 2004; Kettis, 2004; Nawaz and Hood, 2005; Oetzel, 2005; Stosberg, 2005; Tsai and Su, 2005; Wade, 2005; Alon and Herbert, 2009; Rios-Morales *et al*., 2009). Nevertheless, political risk can be managed (Moran, 2003; Hood and Nawaz, 2004; Nawaz and Hood, 2005).

In this context, political risk assessment will be defined as the process of analysing and evaluating political risk while undertaking (international) business activities. Political risk assessment can help decision-makers avoid or decrease the chance of both property and income losses via the use of appropriate management tools and techniques (Burmester, 2000; Minor, 2003; Shapiro, 2003; Stosberg, 2005; Fitzpatrick, 2005). Indeed, assessing political risk is important to MNCs if they are not only to survive but also to prosper (Daniell, 2000; Brink, 2004; Kettis, 2004).

There are different ways of classifying political risk assessment techniques. Waring and Glendon (2001) distinguish between heuristic and scientific approaches: the heuristic approach is qualitative and subjective, relying on individuals' collective judgement, while the scientific approach includes quantitative modelling and requires formal training in mathematics. A number of political risk studies (e.g. Brink, 2004; Kettis, 2004) have

classified political risk assessment techniques into heuristic (qualitative) and scientific (quantitative).

The heuristic approach has deployed five main techniques: judgement and intuition of managers; scenario method; expert opinion; standardised checklist; Delphi technique (Rice and Mahmoud, 1990; Subramanian *et al*, 1993; Wyper, 1995; Pahud De Mortanges and Allers, 1996; Tsai and Su, 2005). The first heuristic technique is 'judgement and intuition of managers'. In this technique, a manager undertakes an assessment, which relies intuitively on her or his competency. Local leaders, officials and business people are contacted in order to assess a political risk (Jain, 1990). Despite the technique is subjective, previous empirical studies have shown the judgement of managers to be the most commonly used technique within Canadian MNCs (Rice and Mahmoud, 1990) and Dutch MNCs (Pahud De Mortanges and Allers, 1996) and the second most commonly used technique within US MNCs (Subramanian *et al.*, 1993). Furthermore, the technique was considered to be the most successful by MNCs in a Canadian study (Rice and Mahmoud, 1990) and a Turkish study (Demirbag and Gunes, 2000).

The second heuristic technique is that of scenario method. According to Brink (2004), scenario method is qualitative in nature and is a tool for helping managers to take a view into the future in a world of great uncertainty; it is a method to manage strategic risks and opportunities. Scenario method is the process in which managers invent and then consider several varied scenarios of equally plausible futures with the objective to bring forward surprises and unexpected leaps of understanding (Levinsohn, 2002). These scenarios represent a tool for ordering the perceptions of a management team. The point is to make strategic decisions that will be sound for all plausible futures. No matter what future takes place, a corporation and its management team is much more likely to be ready for it and influential in it, if it has seriously thought about scenarios. An example of a scenario method would be a potential US attack on Iran and the scenario would be built according to the effect of such events on the MNCs operating there. Scenario method has been one of the most common techniques used within Canadian, US, UK and Dutch MNCs (Rice and Mahmoud, 1990; Subramanian *et al.*, 1993; Wyper, 1995; Pahud De Mortanges and Allers, 1996).

The third heuristic technique is 'expert opinion'. Experts are used to provide risk management advice on some of the very real risks facing international business. Unlike the judgement and intuition of managers, expert political risk opinion (also known as *old hand*) relies on outside

consultants, who are experts from a certain area or country, to assess political risk. The technique relies on valuable multiple sources of information such as advisory councils of foreign business people, banks, local government officials, academics, former politicians and journalists. As with empirical data, the input obtained through expert opinion may be biased and imprecise and this can have an impact on the outcome of the risk assessment. The quality of an expert judgement is how accurate the judgement estimates the true but unknown value and how well it is related to what the expert knows about the subject (Walker *et al*., 2003). Expert opinion was the first and the second most commonly used technique within US and Dutch MNCs respectively (Subramanian *et al*, 1993; Pahud De Mortanges and Allers, 1996). Furthermore, the technique had the second highest "success" score within Canadian and Turkish MNCs (Rice and Mahmoud, 1990; Demirbag and Gunes, 2000).[i]

The fourth heuristic technique is the standardised checklist. This *structured* technique is used for both the identification and assessment of risk. The purpose of a checklist is for the manager to review systematically the items on the list (Pahud De Mortanges and Allers, 1996). A political risk checklist is an easy, quick and cheap technique but is stable and does not consider future events. Therefore, such a technique or other simple ranking methods may be used for an initial screening of a potential host country. Since a checklist method presents a standard procedure for evaluation of political risk, it can impair the creativity of the analyst and the decision maker. The resulting risk analysis involves a large element of arbitrary subjectivity, and generally does not take into account specific corporation factors. Therefore, the index cannot be a substitute for in-depth political risk assessment. The use of a standardised checklist has been found to be common within Dutch MNCs (Pahud De Mortanges and Allers, 1996).

The fifth heuristic technique is the Delphi technique. The Delphi technique is a method of gaining the response of a panel of geographically dispersed experts to a complex problem (Loo, 2002). Gupta and Clarke (1996) defined Delphi as a qualitative technique that extracts, refines and draws upon the collective opinion and expertise of a panel of experts. From the perspective of political risk, Delphi can be used to predict a future event or outcome in which a group of experts is required to give their opinions on variables that affect the political environment of a country, initially independently and subsequently by consensus, in order to discard any extreme views (Tsai and Su, 2005; Zolingen and Klaassen, 2003). Therefore the Delphi technique is a particularly appropriate method when there is no historical data

available. The results of Delphi techniques depend on the quality of the experts chosen and their motivation to participate satisfactorily (Burmester, 2000). Although the technique has encountered some criticism in its relatively long history for being methodologically unscientific and often entails creating and using pseudo precise indices, it is still widely used as a communication tool to gain expert opinion (Benn *et al.*, 2009). Furthermore, in some circumstances, subjective probabilities can be assigned to possible future outcomes in order to arrive at a conclusion (Hussey, 2005).

The second category of political risk assessment techniques is so-called scientific approaches. The scientific approach to risk management entered finance in the 1980s when financial derivatives proliferated (Al Khattab *et al.*, 2006). The approach reached general professions in the 1990s when the power of personal computing allowed for widespread data collection. Scientific techniques applied to political risk assessment are any analytical procedures which are based on data that lend themselves theoretically to statistical or mathematical operations (Ting, 1988). Such techniques were developed in order to reduce the bias or the 'subjectivity' of heuristic techniques (Pahud De Mortanges and Allers, 1996). It may be argued that while the identification of political risk is a straightforward process, 'its measurement and management frequently tend to be more subjective than objective' (Hood and Nawaz, 2004, p. 10). Similarly, Brink (2004, p. 2) stated that the measurement of political risk depends largely on 'subjective human judgement which is in some instances a handicap for political risk assessment'. Indeed Tsai and Su (2005) found that the development of political risk assessment with reference to a quantitative risk assessment structure provides a sensible and systematic means of assessing political risk.

Relatively few empirical political risk studies have investigated the use of particular scientific techniques (e.g. Subramanian *et al.*, 1993; Pahud De Mortanges and Allers, 1996). Other studies (e.g. Rice and Mahmoud, 1990) have identified regression analysis as an example of a scientific approach. Regression analysis is a statistical method used to determine the relationship between the dependent variable and one (simple regression analysis) or more (multiple regression analysis) independent variables. A common approach to predict a probability for the occurrence of a certain event is through the use of a number of measurable variables that work as leading indicators. For example, high inflation and low economic growth (independent variables) might indicate an increased probability of political violence

(dependent variable). Thus, regression analysis relies on historical relationships between the dependent and independent variables.

A number of studies have shown how ineffective scientific techniques are, particularly in relation to the prediction of risk. Cosset and Roy (1991) attempted to replicate Euromoney's and Institutional Investor's proprietary country risk ratings, using the authors' own models, which incorporated a number of political risk and macroeconomic variables. They found that all three models predicted similar outcomes. Consequently, the study concluded that both magazines' country risk ratings could be replicated to a significant extent by a relatively small number of published economic statistics. Eichengreen *et al*. (1995) investigated the causes and consequences of episodes of turbulence in foreign exchange markets over a 34-year period. They found that although a few variables were correlated with speculative attacks, there were no clear early warning signals of currency crises. Oetzel *et al.* (2001) examined 11 widely used measures of country risk across 17 countries during a 19 year time period. The results of their empirical analysis indicated that commercial risk measures were very poor at predicting actual realised risks. These are important results because they call into question the value of allegedly sophisticated scientific techniques. Moreover, they also raise questions about how sophisticated they really are if their predictive powers are shown to be seriously deficient.

A review of the extant empirical studies of political risk indicates that, although heuristic techniques are subjective and vulnerable to the bias and errors of the analyst, MNCs tend to use such techniques more often than their scientific counterparts. Such a tendency has been reported in the context of Canadian MNCs (Rice and Mahmoud, 1990), UK MNCs (Wyper, 1995), Dutch MNCs (Pahud De Mortanges and Allers, 1996), Turkish MNCs (Demirbag and Gunes, 2000) and Swedish MNCs (Kettis, 2004). However there has been little effort made to explain this tendency by the aforementioned studies. Therefore, an explanatory effort is required in order to shed some light on why MNCs tend not to use scientific techniques even though these are available to them.

3.   Methodology

3.1   *The Sample*

The sampling frame used for identifying Jordanian MNCs was the Jordanian Shareholding Corporations' Guide / Amman Stock Exchange for the year 2008 since it was the latest available version at the time of the classification of the corporations. This guide provides an official database of most Jordanian registered shareholding corporations with regard to their total assets, number of employees, industry categories and ownership. The total assets and employees for the population of Jordanian MNCs are shown in Table 1.

(Table 1).

There is no official proxy for a corporation's degree of internationalisation. Consequently, the classifications used in this study are adapted or adopted from earlier, related studies. The first variable is the number of years in international business (Rice and Mahmoud, 1990; Wyper, 1995; Pahud De Mortanges and Allers, 1996; Keillor *et al*, 1997; Keillor *et al*, 2005; Oetzel, 2005). The second variable is the percentage of revenue generated by international business activities (Rice and Mahmoud, 1990; Pahud De Mortanges and Allers, 1996). The third variable is the number of countries in which a corporation operates (Rice and Mahmoud, 1990).

To ensure the homogeneity of the sample, as suggested by Aldehayyat and Anchor (2008), only the corporation headquarters were included. Single respondents, rather than multiple respondents, participated in the study for each corporation. Questionnaires were sent to the general manager (top management) of each corporation, since it was believed that this would be the most appropriate person to provide a valid response to questions related to risk assessment (Hood and Nawaz, 2004). After data were obtained via the questionnaire, they were edited, coded and categorised.

3.2   *Data Collection*

A self-report questionnaire was delivered by hand between April and June 2009 to the general managers of all ninety-eight Jordanian MNCs, which were identified as operating internationally. The rationale for the census approach was to ensure that the sample was

representative. Sixty-five questionnaires were returned, of which, one was unusable. According to the Neuman (2005) formula, the total response rate was therefore 65.3 percent which is considered a good rate compared to other similar studies. Such a positive response rate is an indication of management interest in the topic. The Chi-square test was used to test for bias in the sample but no statistically significant differences between respondents and non-respondents were found and it was concluded that the sample was representative of the population, on the basis of size and industry category, and that the findings therefore could be generalised to the entire population.

Respondents to the questionnaires were presented with a list of six literature-derived assessment techniques and were asked whether they used these techniques and also their views about the effectiveness of each technique used. Success can be assessed via objective or subjective measures. In line with the studies of Rice and Mahmoud (1990) and Demirbag and Gunes (2000), 'success' was defined as a manager's self evaluation of the utility of a particular technique. A four-point rating scale was provided to the respondents:

- 0 stood for 'not used'
- 1 for 'used with no success'
- 2 for 'used with a moderate degree of success' and
- 3 for 'used with a great deal of success'.

Semi-structured interviews were used as a means of elaborating on the findings from the questionnaire. The interviews, which lasted generally from 40 to 60 minutes, were used to explore why particular techniques were used (Wass and Wells, 1994). The sample for interviews (n = 8) was drawn from the respondents to the questionnaires (n = 64), rather than from the target population as a whole (n = 98), since it was considered that corporations which had refused to respond to the questionnaire would be unlikely to agree to extensive personal interviews. The rationale for targeting eight MNCs was two fold. Firstly, the semi-structured interviews were used to explore and explain themes, which emerged from the use of the questionnaire. Secondly the sample size was in line with earlier political risk studies (e.g. Tsai and Su, 2005; Oetzel, 2005).

A multi-method approach was adopted because it was anticipated that the identification of the political risk assessment techniques, which were in use in Jordanian MNCs, could be

accomplished via a questionnaire; while the understanding of the rationale behind the use of such techniques might require personal interaction with managers (Hair *et al*., 2003).

3.3 *Data Analysis*

Non-parametric statistics were used in this study. This is because the outputs of the Normal Quantiles-Quantiles chart indicated that the distribution in question was significantly different from a normal distribution. Consequently, three major categories of statistical techniques for analysing data were used: descriptive; inferential and differences; correlational.

3.4 *Classification of Jordanian MNCs*

There is no official classification of MNCs by size in Jordan (The Jordanian Shareholding Corporations Guide, 2008). Therefore, MNCs were grouped, based on their total assets ($million) and number of employees, into three numerically equal categories - a trichotomous method. Small-sized corporations included corporations with total assets of below US $ 19.2 million, while medium-sized corporations held assets of US $ 19.3 to 41.3 million. According to this analysis, 21 out of 64 MNCs (32.8 %) were small-sized, 20 corporations (31.2 %) were medium-sized and 23 corporations (35.9 %) were large-sized (Table 2).
(Table 2).

The allocation of Jordanian MNCs to their number of years in international business reveals that 32 out of 64 MNCs (50.0 %) were low-internationalised, 17 corporations (26.5 %) were medium-internationalised and 15 corporations (23.5 %) were high-internationalised. Allocating the responding MNCs according to a corporation's percentage of international revenue reveals that 25 out of 64 MNCs (39.1 %) were low-internationalised, 28 corporations (43.7 %) were medium-internationalised and 11 corporations (17.2 %) were high-internationalised. Allocating the responding MNCs according to a corporation's number of operating countries reveals that 35 out of 64 MNCs (54.7 %) were low-internationalised, 16 corporations (25.0 %) were medium-internationalised and 13 corporations (20.3 %) were high-internationalised and operated in more than 11 countries (Table 3).

(Table 3)

4. Use and Success of Political Risk Assessment Techniques

Heuristic techniques were used more extensively than scientific techniques. Judgement and intuition of managers was used by 56.2 percent of MNCs, expert opinion by 40.6 percent, scenario method by 22.2 percent, scientific techniques by 9.3 percent, standardised checklist by 7.8 percent and Delphi Technique by 6.2 percent. The judgement and intuition of managers technique had the first highest percentage self-reported success (46.8 %), expert opinion was second (34.3 %), scenario method was third (22.2 %), standardised checklist was fourth (6.2 %), Delphi technique was fifth (3.1 %) and scientific techniques was also rated 3.1 percent. Most interviewees said that they were likely to rely on one or more heuristic technique. The "flexibility" of scenario techniques made them popular with Jordanian MNCs.

(Table 4)

The most frequently used technique within Jordanian MNCs was the judgement and intuition of managers (56.2 % of the total). Moreover, the technique was used by 79.0 percent of Canadian MNCs (Rice and Mahmoud, 1990) and by 96.0 percent of Dutch MNCs (Pahud De Mortanges and Allers, 1996). Judgement and intuition of managers was the second most commonly used technique (63.9 % of the total) within US MNCs (Subramanian *et al*., 1993) and was also used commonly within Swedish MNCs (Kettis, 2004). This heuristic technique also had the highest percentage of self-reported success by Jordanian MNCs, relative to other techniques. The technique is the 'most successful' for Canadian MNCs (Rice and Mahmoud, 1990) and the 'most positive' for Turkish MNCs (Demirbag and Gunes, 2000). These findings suggest that Jordanian and other MNCs are generally satisfied with relying on the judgement and intuition of managers for assessing political risk.

The second most frequently used technique within Jordanian MNCs was 'expert opinion' (40.6 percent of the sample). Expert opinion was the most commonly used technique within US MNCs (Subramanian *et al*., 1993) and the second most commonly used technique within Dutch MNCs (Pahud De Mortanges and Allers, 1996). This technique also had the second highest percentage self-reported success by Jordanian MNCs. This technique was rated the second 'most successful' by Canadian MNCs (Rice and Mahmoud, 1990) and the second most 'positive' by Turkish MNCs (Demirbag and Gunes, 2000). These findings suggest that MNCs are generally satisfied with this technique for assessing political risk.

The third most frequently used technique within Jordanian MNCs was scenario method. The percentage of Jordanian MNCs who utilised this technique is lower than the percentage (38.0) found in the context of US MNCs (Subramanian *et al*., 1993) but is higher than those percentages reported in the context of Canadian MNCs (Rice and Mahmoud, 1990) or Dutch MNCs (Pahud De Mortanges and Allers, 1996). Scenario method also had the third highest percentage self-reported success by Jordanian MNCs (22.2 %) but the fourth 'most successful' by Canadian MNCs (Rice and Mahmoud, 1990).

Only a minority of MNCs used the other two heuristic techniques: 7.8 percent used a standardised checklist and 6.2 percent used a Delphi technique. Like Jordanian MNCs, Canadian MNCs (Rice and Mahmoud, 1990) and Dutch MNCs (Pahud De Mortanges and Allers, 1996) used these two techniques less frequently than others did. In terms of the mean of percentage reported success, standardised checklist and Delphi technique were considered the least successful among heuristic techniques within Canadian MNCs (Rice and Mahmoud, 1990) and Turkish MNCs (Demirbag and Gunes, 2000).

Scientific techniques were used by only 9.3 percent of Jordanian MNCs. Like Jordanian MNCs, Canadian MNCs (Rice and Mahmoud, 1990), US MNCs (Subramanian *et al*., 1993), UK MNCs (Wyper, 1995), Dutch MNCs (Pahud De Mortanges and Allers, 1996), Turkish MNCs (Demirbag and Gunes, 2000) and Swedish MNCs (Kettis, 2004) used heuristic techniques more often than scientific techniques. In terms of the mean of percentage reported success, Canadian MNCs (Rice and Mahmoud, 1990) and Jordanian MNCs considered scientific techniques the least successful.

Two main reasons are commonly given to explain why heuristic techniques are used more often than scientific techniques by MNCs. The first reason is that heuristic techniques are quicker to use, particularly, in an era of rapid environmental change. The second reason is that heuristic techniques are less expensive than scientific techniques, since heuristic techniques do not require the gathering of historical information. Both of these reasons are also true in the case of Jordan.

However, Jordanian MNCs also refrain from the extensive use of scientific techniques. Managers use their habitual expectations, derived from established practice, as a frame of reference in understanding political risk. This is because scientific techniques require particular data that are susceptible to statistical manipulation. Such data may not be readily

available. Even if they are available such data tend to be in the wrong format because they are collected for purposes other than political risk assessment (Brink, 2004). Furthermore, the collection of political data can be a difficult process in Jordan because the secondary sources of information (e.g. newspapers, television, radio and census) are censored; so the presentation of related political events is not reliable (Business Monitor International, 2008).

Jordanian MNCs that do use scientific techniques were found to be larger in size, had more years in international business, generated higher revenue from international business activities and had facilities in more countries; high-internationalised Jordanian MNCs were more likely to utilise scientific techniques than low-internationalised corporations since the former had more resources to use such techniques.

5   Conclusions and Implications

The results indicate a preference for heuristic techniques as the primary means of political risk analysis and much less use of scientific techniques by Jordanian MNCs than might have been expected by the recent literature. The extensive reliance on heuristic techniques by Jordanian MNCs is interesting since one might expect that corporations with a high degree of internationalisation or corporations which operate in politically volatile regions would use more sophisticated techniques for political risk assessment (Shao and Shao, 1996 and Hood, 2001). Critical to heuristic assessment of political risk are the sources and quality of information. As in other countries, the shortage of suitable data, and their unreliability, and a shortage of data processing skills are the important reasons why Jordanian MNCs refrain from the extensive use of scientific techniques.

Nearly all previous empirical studies of political risk assessment have been undertaken in developed countries. Although national statistics in all developed countries are subject to a certain degree of error, it is generally accepted that they are produced in good faith. Moreover, they are subject to checking and revision on an annual basis. Jordan is one of a number of countries – both in the Middle East and elsewhere – which has an authoritarian system of government. It is believed widely that official statistics are subject to political manipulation and that therefore that they cannot be relied upon. Even if this belief is unfounded, the fact that it is widely held means that it has the same end result – the potential utility of scientific political risk assessment techniques is devalued. Jordanian MNCs have clearly come to their own conclusions on this matter.

The implications of this finding for international businesses which are based outside Jordan also tend to reinforce the perceived utility of heuristic over scientific techniques of political risk assessment. As was noted earlier, there are in any case serious questions about how sophisticated scientific techniques of political risk assessment really are.

In the case of Jordan it has been found that many business decision makers have serious doubts about the credibility of domestic statistics and that therefore they are even more likely to use heuristic, rather than scientific, techniques of political risk assessment. There are a number of other countries - in the Middle East and elsewhere – in which these considerations also apply. This suggests therefore that in a number of emerging markets international businesses would be well advised to prioritise the use of heuristic, rather than scientific, techniques.

Since Jordanian MNCs tend to rely mainly on heuristic techniques, the attraction of using their scientific counterparts, which can be found in their potential for providing detailed assessment, has not been realised. This does not imply that heuristic techniques of political risk assessment are inherently inferior to scientific ones. Unlike heuristic analysis, scientific analysis is a considerably more complex process. These complexities occur for a number of reasons including complicated cash flows estimates, changes in foreign exchange rates, and political risk considerations. Political risk assessment, however, is carried out by humans whose rationality has limits, especially when operating in a politically volatile region. Therefore, both approaches are vulnerable to being affected by ideologies, power relations and other motivations. Nevertheless, it does imply that heuristic techniques are likely to be of greater use to decision makers in the foreseeable future.

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[i] In the case of the US and Turkish studies, a five point scale was used; in the case of the Canadian study a three point scale was used. In all three cases managers were asked to rate the utility of the technique used.