POLITICAL RISK ASSESSMENT AND MULTINATIONAL FIRMS IN AN EMERGING MARKET

By

James B Mshelia and John R Anchor

**Department of Strategy, Marketing and Economic,
University of Huddersfield, Business School**

Abstract

Political Risk Assessment (PRA) is an important influence on Foreign Direct Investment (FDI) and the competitiveness of multinational firms, yet little is known about PRA in emerging markets. This study investigates the techniques used for PRA in an emerging market. It empirically used a multi-method approach to analyse data collected from 74 multinational firms and the dataset of the International Country Risk Guide (ICRG) PRA annual rating for Nigeria during the period 2011 to 2015. Quantitative techniques are only useful if accurate data are used to conduct an assessment. This will influence how firms' conduct PRA and decision making and may also help to explain why some firms have invested in an emerging market with low financial and economic risks despite the presence of high political risk.

Keywords: political risk, multinational firms, emerging market, foreign direct investment, political risk assessment

INTRODUCTION

The importance of Political Risk Assessment (PRA) for multinational firms investing in emerging markets has increased significantly with the growing rate of Foreign Direct Investment (FDI) globally (Althaus, 2013; Baek & Qian, 2011; Baldacci, Gupta, & Mati, 2011; Jiménez, Luis-Rico, & Benito-Osorio, 2014). PRA is used for managing political risk, decision-making processes during firms' internationalisation, and has been identified as one of the key determinants of FDI into emerging markets. World Investment and Political Risk 2013 reported that FDI has increased since the turn of this century but political risk has been a foremost concern for multinational firms operating in emerging market due to its consequences (WorldBank (2014: 5). Most studies conducted have been more concerned about FDI, due to it having more consequences of political risk than on other forms of international investment in emerging markets (Bekaert, Harvey, Lundblad, & Siegel, 2014; Filipe, Ferreira, Coelho, & Moura, 2012; Kerner & Lawrence, 2014; Khan & Akbar, 2013). Political risk is any changes in a political environment due to government decision or event that decreases the possibility of a foreign investor achieving its business objectives in another political environment.

The quest for growth and competitions among multinational firms have increased the rate of FDI into emerging markets, changing the dynamics of international business in this century (Bekaert et al., 2014; Hayakawa, Kimura, & Lee, 2013; UNCTAD, 2014; WorldBank, 2014). However, most emerging markets have more unstable political environments with more frequent changes in government policy compared to the developed ones (Baek & Qian, 2011). It is for this reason, that different PRA methods have been developed over the years to mitigate and manage political risk consequences. The PRA methods developed are as wide-ranging as the sources for generating the political risk which are existing along a spectrum of both qualitative and quantitative methods with a mixture of subjective and objective approaches.However, previous studies have shown that the consequences differ from one emerging market to another, which have influenced the types of strategy multinational firms adopt (Baldacci et al., 2011). This means that each emerging market has specific political risk that differentiates one from another, therefore creating different scenarios for multinational firms to assess (Baldacci et al., 2011; Bekaert et al., 2014; Quer, Claver, & Rienda, 2012).

An assessment that can predict business risks in foreign environment requires due diligence analysis of risks in an emerging market (Sottilotta, 2015). It is important to use methodologies by which the business can seek information on a particular emerging market to assess the consequences of political risk on its investment, which can only be achieved through a detailed assessment of political risk. Since, each market has specific political risk-factors that differentiate one from another, likewise multinational firms have specific characteristics that makes them perceive political risk differently (Baldacci et al., 2011; Bekaert et al., 2014; Quer et al., 2012). Therefore, there is a need for political risk assessment (PRA) in a particular emerging market which will incorporate all the specific political risk-factors to improve foreign investors' operations.

Howell (2002) is only through an in-depth assessment of these challenges constituting political risk that an essential decision making tool for investors and policy-makers alike can be designed (Howell, 2011). Likewise, strategic planning towards guiding against potential losses for potential investors in order to achieve returns on investment at a reduced level of risk can be articulated. Similarly, assessing these risks is relevant; so that type of investment, entry strategy and ownership structure into any emerging market can be determined. According to Howell (2011: 23), "the key reason for PRA is the identification and forecast of losses and reasons for unsuccessful investments, in order to mitigate and avoid failure". PRA

as a discipline has been transformed from an original mechanism to identify the political risks and assess the profitability of business operations, to a method that concentrates on managing political risk (Hough, Du Plessis, & Kruys, 2008).

However, until the last decade, study on political risk has received relatively little attention within the context of emerging markets. Recent studies have shown that only a few empirical studies have been conducted in emerging markets and most were conducted in developed countries (Hashmi & James, 1988; Keillor, Wilkinson, & Owens, 2005; Kobrin, 1982; Oetzel, 2005; Rice & Mahmoud, 1990; Wyper, 1995). Most reports on emerging markets have generalised, either based on a single event or hypothetical evidence without due consideration of the accuracy of data obtained. The resultant inability of some multinational firms to fully understand diverse political environments has resulted in across-the-board policies, dichotomising some emerging markets as safe or unsafe (Fitzpatrick, 1983: 251). It is against this backdrop of these challenges that this paper intends to investigate multinational firms operating in Nigeria, an emerging market.

Nigeria, Africa's largest economy, is a major supplier of oil and gas to the World market (NBS, 2012a, 2014); Economist Intelligence Unit, 2007). The diverse nature of a being multi-ethnic, multi-cultural and multi-religious country, coupled with different abundant natural resources, is viewed by many as more of a challenge than a strength to the prosperity of Nigeria (Jensen & Johnston, 2011; NBS, 2012b). Despite the ever present flux in her political situation, the country has witnessed a continuous inflow of FDI (Imoudu, 2012). This has been growing at an annual rate of 23.4% over the past six years, which represents about 6% of Africa's total FDI and it has impacted positively on her economic development (Adegbite & Ayadi, 2011; Wafure & Nurudeen, 2010; WorldBank, 2013). It is in recognition of this that this paper aims to investigate the PRA techniques and ratings modes used by multinational firms in an emerging market. This study empirically used a multi-method approach to analyse data collected through statistical methods and content analysis from 74 multinational firms in Nigeria. The dataset of the International Country Risk Guide (ICRG) PRA annual rating for Nigeria within the period 2011 to 2015 will also be analysed.

THEORETICAL REVIEW

Political risk emerged as a discrete field of study in international business without an overarching theory setting forth the apparent relationship and underlying principles explaining the responses of multinational firms towards individual government policies that regulate them in an international business environment (Grosse & Behrman, 1992; Robock, 1971). Although several theories have been developed in an attempt to understand multinational firms' behaviour in international business, none have been developed that has focused their cross-national behaviour showing how they react to different countries' government policies.

Political risk is institutional in the sense that institutions are responsible for making and changing policies in a country and this therefore constitutes political risk to multinational firms. Previous studies have attempted to link political risk to institutional theory in an attempt to explain what influences firms' decisions to internationalise to a particular location (Dunning, 1980; Osabutey and Okoro, 2015; Quer, Claver, & Rienda, 2012). Institutional theory can be used to explain how firms make decisions in responding to different institutional environments as they move from either a developed economy to an emerging one or vice versa (Meyer, 2008; Peng, Wang, & Jiang, 2008; Quer et al., 2012).

This theory is applicable to multinational firms particularly, since they operate in different institutional contexts. Institutional factors are a significant consideration for firms undertaking international business, especially in emerging economies where there is likely to be evidence institutional factors weaknesses (Francis & Zheng, 2009; Klaus, Estrin, Bhaumik, & Peng, 2009; Osabutey & Okoro, 2015). This is because both informal and formal rules influence whether or not a firm should enter a new market bearing in mind the cost of doing business in a country (Quer et al., 2012). Invariably, institutional issues influence the behaviour and choice of location of multinational firms. (Meyer, 2008; Peng et al., 2008; Quer et al., 2012; Witold & Swaminathan, 2008). Consequently, the rules and regulations set by these government institutions are parameters which can determine the differences between a profitable investment and a non-profitable investment. The literature shows that PRA methods exist along a spectrum of both qualitative and quantitative methods with a mixture of subjective as well as objective approaches. However, some limitations were observed in the existing quantitative ratings developed for PRA.

POLITICAL RISK ASSESSMENT

Political Risk Assessment Defined

A number of authors have attempted to define PRA with a view to managing political risk in international business. Al-Khattab et al. (2011: 98) defined PRA "as the process of analysing and evaluating political risk while undertaking international business activities". However, it is also used before undertaking international business activities. PRA is a prerequisite to a successful business operation for multinational firms to consider before investing in a foreign country, so that they can achieve returns on their investment. Assessing the chances against possible losses can only be probable subsequent to a risk assessment that is conducted comprehensively (Brink, 2004). This means that political risk assessment is a method of foretelling probable consequences for an investing prospector, in order to mitigate the risk (Fitzpatrick, 1983). There is therefore a need for multinational firms to use PRA before and while undertaking international business activities in order to determine the returns on their investment by means of a number of identified variables for the intended host country. This paper modified Al Khattab's et al. (2011) definition of PRA 'as the process of analysing and evaluating political risk before or while undertaking international business activities'.

Political Risk Assessment Techniques

A number of studies have shown that there are currently different methodologies employed in PRA techniques. These techniques can be considered as existing along a spectrum of both qualitative and quantitative strategies, which are distinguished from each other based on their applications, approaches and structures (Fitzpatrick (1983); Pahud de Mortanges and Allers (1996)); Brink (2004); Al-Khattab, Anchor, and Davies (2008); Rummel and Heenan (1978). Brink (2004) and Kettis (2004) suggest that the current different methodologies are a mixture of subjective and objective approaches require either a qualitative or quantitative method. While the former method relies on individual or collective judgement, the latter is scientific in its approach involving multivariate analysis or quantitative modelling. Yet, Kobrin (1982) proposed that different methodologies should be distinguished on the basis of their degree of systematisation, which involves explicit assessment and implicit assessment which is intricate to replicate, entails mental process.

The use of quantitative methods by multivariate analysis involves analytical procedures that are based on statistical data or mathematical applications and are analysed theoretically (A. Al-Khattab et al., 2008; Ting, 1988). The objective nature of the quantitative approach decreases bias and the subjectivity compared to the qualitative approach, which involves techniques that rely on individual or collective judgement (Pahud de Mortanges & Allers, 1996). Brink (2004), though disjointed recognising this limitation, proposed that measuring political risk to a large extent necessitates subjectivity, which requires human judgement. Hood and Nawaz (2004) in supporting this assertion state that "its measurement and management frequently tends to be more subjective than objective", meaning that the entire process requires more qualitative approaches than quantitative.

It is in view of these aforementioned reasons that there are more studies conducted using techniques involving qualitative approaches than quantitative approaches (Al-Khattab et al., 2008; Pahud de Mortanges & Allers, 1996). Pahud de Mortanges and Allers (1996), Rice and Mahmoud (1990) and A. Al-Khattab et al. (2008) identified five qualitative techniques namely Delphi Technique, Judgement and Intuition of Managers technique, Expert Opinion, Standardised Check-list and Scenario Development. Each of these types of assessment techniques' application differs from one another as well as certain advantage(s) and limitation(s) that further distinguish them as shown in Table 1. A further insight into individual assessment technique shall is discussed below.

Table 1: Types of Qualitative Political Risk Assessment Techniques

Serial	Types	Application	Advantage(s)	Limitation(s)
1.	Delphi Technique	independent experts	collective brainstorming	group dynamics and long time frame
2.	Judgement and Intuition of Managers technique	proficiency of managers	knowledge and experience	bias and the subjectivity
3.	Expert Opinion	consultants from the area or country	multiple sources of information	Expert dependent

| 4. | Standardised Check-list | systematically evaluate the items on the list | more structured approach | future events not taken into consideration |
| 5. | Scenario Development | Assessing the implications of possible scenario | Flexibility | relies on the prediction |

Sources: Jarvis (2008), A. Al-Khattab et al. (2008), Jain (1990), Levinsohn (2002)

Delphi Technique

The Delphi technique involves the use of inputs from independent experts with knowledge of the political events and processes in a specific setting of the host country. The technique prevents the pitfalls of collective brainstorming, which often works on a consensus where often changes individual assessment due to group dynamics (Jarvis (2008). Noordin, Harjito, and Hazir (2006,: 94) defined the Delphi technique as one that "seeks for the collective opinion of a group of independent consultants on factors affecting the political environment of a country". The success of this technique is contingent on the expertise or quality of the consultants employed and their enthusiasm to positively contribute (Burmester, 2000).

Expert Opinion

Expert opinion (known as old hand) is a technique which seeks the views of respective experts or consultants from the area or country of an investor destination. To assess political risk, the technique relies on multiple sources of information from respective experts from the banks, government, foreign investments, academics, politicians and journalists (A. Al-Khattab et al. (2008). It is different from the judgement and intuition of managers, because it relies on multiple numbers of consultants covering all the areas of interest with a focus on political risk. Hashmi and James (1988), Rice and Mahmoud (1990) and Demirbag, Gunes, and Mirza (1998) acknowledged the success of this technique within US, Canadian and Turkish firms while Subramanian et al, (1993); Pahud de Mortanges and Allers (1996) describe it as the first and the second most widely used technique used within US and Dutch firms.

Judgement and Intuition of Managers

Jain (1990) defines judgement and intuition of manager as a technique that relies instinctively on the proficiency of managers to carry out the assessment by contacting local leaders, officials, as well as business people, to conduct the assessment of political risk based on their knowledge and experience. The bias and the subjectivity of this technique is a limitation, according to Kobrin (1982), but in spite of this hitch, preceding studies revealed that the judgment of managers is widely used among Canadian, Dutch and US firms (Pahud de Mortanges & Allers, 1996; Rice & Mahmoud, 1990; Subramanian, Motwani, & IsHak, 1993) The success of this technique has been highly acclaimed and recorded in countries such as the US, Canada, Turkey and Holland according to Hashmi and James (1988): Subramanian et al. (1993); Rice and Mahmoud (1990); Pahud de Mortanges and Allers (1996) and Demirbag et al. (1998).

Standardised Checklist

Standardised checklist is a technique which relies on a prepared template containing necessary itemised information, structured to identify and assess the political risk in an area or country. In view of this, Pahud de Mortanges and Allers (1996) identified the reason of what the political risk checklist is. Investors use it to systematically evaluate the items on the list in order to arrive at a decision of whether to invest or not. Likewise, they further identified it as a more structured approach. Even though the technique seems fast, uncomplicated and inexpensive to use, its limitation is that future events are not taken into consideration (Ting, 1988). Pahud de Mortanges and Allers (1996) and Hashmi and James (1988) confirmed that standardised checklist was commonly used by Canadian and Dutch firms.

Scenario Development

Levinsohn (2002) states that the scenario development technique relies on the prediction of the future instead of inferring from the past. Flanagan and Norman (1993), on the other hand, adduced that the flexibility of the technique has increased its recognition compared to other techniques within the Canadian, US, UK and Dutch firms because it has been developed into three different scenarios with one appearing as pessimistic, another as optimistic and the last as the likely result. In support of the assertion, Brink (2004, p.123) states that it is a generally acknowledged technique for identifying key political risks with additional diverse

opportunities. Also mentioned were the perspectives of some researchers in the procedures of preparing scenarios, for example: "the listing of business issues, selecting the key influences, the projection of factor outcomes and assessing the implications of possible scenarios". It is for these reasons that Pahud de Mortanges and Allers (1996) identified it as a structured approach.

Political Risk Assessment Ratings/Models

For the purpose of this paper, eight political risk ratings will be discussed briefly. These frameworks are: International Country Risk Guide (ICRG), Business Environment Risk Intelligence (BERI), Economist Intelligence Unit (EIU), Brink's Model (BM), Political Risk Services (PRS), Control Risk Group (CRG), Euro money and S.J Rundt and Associates Inc. However, four out of the eight were selected political risk frameworks are: BERI, ICRG, EIU and BM. Each of these selected political risk rating has common attributes with overlapping relevant risk variables. These ratings utilise different approaches and methodologies for conducting PRA.

The reviewed literature indicates a number of rating organisations used mostly quantitative rather than qualitative methods to conduct PRA. It involves using a scoring guideline with a weighed applicable valued risk variable through mathematical calculation to produce these generic models and rating methodologies to determine the probability of political risk. This is achieved by theoretically linking the acts or events, resulting in business loss by establishing an index, grade or percentage of loss due to political risk. It is achieved by having a list of variables (acts or events) which are political in nature which can result into the respective business loss. According to Howell and Chaddick (1994, p.73) "the modeller would try to envision the circumstances under which events will occur". This is by projecting the circumstances under which these events transpired. The frameworks develop a list of variables of political risk and attach a 'measure of loss' index to represent loss. Most of such indices used are only estimates; therefore they cannot be generalised. These rating methodologies and models utilise different statistical approaches using quantitative methods by using multiple regression and discriminant analyses (Brink, 2004). A brief insight into these political risk models/ rating methodologies is provided below.

The International Country Risk Guide (ICRG)

The ICRG was developed to provide forecasts for financial, economic and political risk in the year 1980 and in 2001, Political Risk Service (PRS) Group launched an online ICRG rating system version (PRS Group, 2015). According to PRS Group (2015) this model has an advantage of allowing users to conduct to an assessment by modifying the model to meet their specific requirements. The rating provides a rating of 22 variables, which are divided into three subcategories: political, economic and financial. A detached index is fashioned for each sub-category. The political risk index is based on 100 points while the financial and economic risk index, have 50 points each. The total points of the three indexes are divided by 2 to produce the weights for insertion in the merged country risk score between 0 – 100 points. Thereafter, the results from 80 – 100 points refer to very low risk and from 0- 49.5points refer to as very high risk. The political variables are composed of 12 weighted variables and both cover both political and social features. (Brink, 2004; PRSGroup, 2009, 2015).

The Economist Intelligence Unit (EIU)

The EIU model is one of the ratings developed which comprise political, social, and economic variables. The EIU provides a method for weighing each variable's individual impact and its relative roles to the investor. It further provides a method for combining the risk total index in a manner as a primary indicator of the overall risk to advise a potential investor of useful directions to take in their investments (Howell & Chaddick, 1994). The EIU method was refined and the number of variables reduced while the method chose "six political variables worth a total of 50 points in weight, and four social variables worth 17 points", to construct a total risk index generally referred to as 'political risk' (Economist Intelligence Unit, 2007; Howell, 2011; Howell & Chaddick, 1994; PRSGroup, 2009).

The Business Environment Risk Intelligence (BERI)

The BERI model is one of the first ratings to be developed based on a set of quantitative indices and was refined in the year 1975 (Howell, 1998). The BERI framework employs ten variables, which are divided into three categories as shown in Table 2.2. These categories are the Political Risk Index (PRI), with "10 political and social variables, the Operations Risk

Index (ORI), with 15 economic, financial, and structural variables, and the R Factor, with an index covering a country's legal framework, foreign debt, foreign currency reserves and foreign exchange". These three ratings are computed to arrive at an average that is known as the Profit Opportunity Risk Index (Howell, 1998, 2002, 2011).

Brink's Model (BM)

The BM model is one of the models comprising political, social, and economic variables with their respective indicators that reflect the comprehensive business and investment climate in a country. All the risk variables and indicators of both economic and social variables included in the model measure the single construct of political risk; thereby making the model 'unidimensional' as shown in Table 1. The framework was developed for measuring, as well as observing, political risk and depends largely on subjective human judgement (Brink, 2004). According to Brink (2004, p. 121) "the weights that are attributed to each risk factor and its indicators are purely subjective and an illustration of the model's built-in adaptability and flexibility, which can be adjusted to suit a client specific model". The BM recommends a balance of user ingenuity assisted with researched information in order to make it a more objective probable estimate of political risk. This implies that it requires the experience and knowledge of its users to conceptualise each risk variable and its indicators (Bischoff, 2010; Brink, 2004).

Political Risk Services (PRS)

Political Risk Services (PRS) use historical background, actor biographies and forecast scenarios as well as basic data on economic data and government structure to provide PRA. It establishes the likely levels of "political turmoil and of 11 types of intervention that affect the business climate" (Brink, 2004, p. 61). A consolidated series for all regimes is calculated and converted to a letter grade into three areas of instrument, such as financial transfer, direct investment and export markets (Brink, 2004; Howell, 2002; PRSGroup, 2015).

Control Risk Group (CRG)

Control Risk Group (CRG) uses Political Risk, Security Risk and Travel Risk to provide macro level risk assessment. "Each is rated on a 5-point Likert-type scale ranging from "Insignificant risk" to "Extreme Risk". Political Risk and Security Risk take into account

violent/terrorist groups, crime and border conflict/border war" (Brink, 2004, p. 58). PRS uses the Coplin-O' Leary's model for government decision-making (Brink, 2004; Howell, 2002).

Euro money

Euromoney (Euro) uses "nine variables, namely: economic data (25%) Political risk (25%) debt indicator (10%) debt in default or rescheduled (10%), credit rating (10%), access to bank finance (5%) access to short-term finance (5%), access to capital markets (5%) and discount on forfeiting (5%) to provide qualitative assessment for countries it covers" (Brink, 2004, p. 59). The total score is then scaled to 10 lettered categories (AAA to N/R). The PRA is a single indicator created on a $0 - 10$ scale derived from country experts, brokers, and banking officials (Brink, 2004, p. 59).

S.J Rundt and Associates Inc

S.J Rundt and Associates Inc "uses three equally weighted composite indicators such as Socio-Political Risk, Domestic Economic Risk and External Account Risk to provide a systematic evaluation of country" (Brink, 2004, p. 61). The average of the composite indicators is used to create an overall country risk source. The Socio-Political risk category assesses 12 variables including stability of the government, social stability and government intervention in the economy with each weighted. The score is assigned on a $1 - 10$ scale with 1 representing the best circumstance and 10 the worst (Brink, 2004).

Table 2: Types of Rating Methodologies and Models

Type	Kind of Rating	No. of Countries Rated	Political Risk factors Included	Industry Specificity	From	Frequency
BERI	Mostly credit	50	10	Yes	Index	3 per annum
CRG	Mostly credit	118	3	Yes	5Point likert of scale	Daily electronically
EIU	Mostly credit	100 +	22%	Yes	Letter Grades	4 per annum monthly updates
Euro Money	Mostly credit	180	25%	N	Letter Grade	-

ICRG	Political Risk	140	50%	Yes	Very low to very high	Monthly
PRS	Political Risk	106	YES	Yes	Letter grade	Monthly update complete revisions
BM	Political Risk	-	Yes	Yes	percentage	-
SJ Rundt	Some Political Risk	-	33%	No	1 (best) to 10 (Worst)	-

Source: Howell, (2001) and Brink, (2004)

Table 2 above summarises the features that differentiate the nine described rating methodologies and models. This shows the differences that limits their applicability. It is in this view that Brink (2004, p. 47) states that the "model is a simplification of reality, there will always be something missing from the final application regardless of how many times it is planned and redesigned". The limitations in the rating models and methodologies support this assertion. It is evident that most of the rating models and methodologies are for credit rating rather than political risk requirement. Therefore, examining ratings reveals some limitations that negate their potential to adequately produce a result on the assessment of investment climate in an emerging market. Some of the limitations observed in the rating methodologies and models are as follows:

    a. The impossibility of including every risk variable that could input on the profitability of foreign investment (Brink, 2004).

    b. The inapplicability of applying it to a specific multinational firm, in a specific country or part of it to a specific project.

    c. The inability of determining the type of losses that can affect a specific firm, since they are of different sizes in terms of value (Howell & Chaddick, 1994).

    d. The differences in their design and approvals in almost every case, the operationalisation and rating or measurement of the factors lack transparency (Brink, 2004).

    e. The contentious nature of grading systems and the difficulty of interpreting most of the rating models and methodologies (Brink, 2004). .

f. The credibility of the data used with the rating models and methodologies.

All these assessment methods and techniques developed for conducting PRA are as wide-ranging as the sources for generating the political risk. Most of the existing methodologies and techniques being used for conducting PRA exist along a spectrum of both qualitative and quantitative methods with a mixture of subjective and objective approaches. They inevitably have both disadvantages and advantages, and there is not likely to be only one excellent methodology. According to Silverman (2011:53), "like theories, methodologies cannot be true or false, only more or less useful". It implies that no methods or techniques used for PRA are more or less useful; rather they depend on the accuracy of the results obtained in the host country. To use any methodology there are parameters to be considered, but the check of the validity and reliability of the outcome obtained is significant to accomplishing a firm specific objective. Moreover, most data obtained from emerging markets and used for PRA are rarely without inaccuracies and contradictions. This suggests that successful management and mitigation of political risk is premised on the accuracy of a PRA report on an emerging market. Therefore, there is a need for a firm to consider the use of an appropriate PRA methodology before internationalising to an emerging market.

METHODOLOGY

To identify multinational firms operating in Nigeria, a database of 247 firms from Nigerian Stock Exchange in Lagos and the Corporate Affairs Commission in Abuja were used. A pilot study conducted helped to further identify on a firm-by-firm basis. Finally, only 150 firms were identified as being involved in international business. However, out of this 150, 59 firms indicated that they were not involved in international business, these firms had been nationalised by the then Nigerian government in the 1970s but have some form of foreign affiliations supporting their operations. A total of 74 multinational firms in Nigeria across different types of firms participated in an on-line survey, giving a participation rate of 49.3%. This study used both primary and secondary methods of data collection. This study empirically used a multi-method to analyse data collected through the use of online questionnaire using descriptive statistical techniques and content analysis for the dataset of the International Country Risk Guide (ICRG) PRA annual rating for Nigeria within the period 2011 to 2015 was also analysed.

DATA PRESENTATION AND ANALYSIS OF RESULTS

Characteristics of Nigerian Multinational Firms

Table 3 displays five classifications category used for the respondents to characterised multinational firms in Nigeria. In assigning the respondents according to type of industry, Table 3 discloses that petroleum & gas 32.4 % of them and manufacturing represented 36.5% of them. In allocating the respondents according to size, based on a firm's assets (1 Billion Naira equivalent of $ 136 million), table 3 reveals that 58.1 % were large -size firms. In assigning the respondents according to size, based on a firm's number of employees, table 3 displays that 71.6 % were large -size firms with more than 300 employees. In apportioning the participant firms by type of multinational business, table 3 discloses that 64.9 % of the firms were internationalised by FDI. In assigning the respondents multinational firms according to entry mode of internationalisation, 56.8% of the firms' did so by owning subsidiary.

Table 3: Description of Characteristics of Multinational Firms

Characteristics of Nigerian Multinational Firms		Frequency	Percentage
	Manufacturing	27	36.5
	Petroleum & Gas	24	32.4
Type of Industry	Banking	12	16.2
	Insurance	5	6.8
	Construction	3	4.1
	Communication	3	4.1
	FDI	48	64.9,
	Export/Import	24	32.4
Type of Business	FPI	1	1.4
	Others	1	1.4
	Owning Subsidiary	42	56.8
	Branch/Office	12	16.2
Entry Mode	Franchise/Licensing	5	6.8
	Joint Venture	5	6.8
	Manufacturing Contract	3	4.1
	Strategic Alliance	3	4.1
	Other	4	5.4
	Below N1 billion	3	4.1
	N1 billion -- N10 billion	14	18.9
Asset	N10 billion -- N20 billion	14	18.9
	Above N20 billion	43	58.1

	Below 50	4	5.4
	50 -150	7	9.5
Number of Employees	150 - 300	10	13.5
	Above 300	53	71.6

Table 4. Political Risk Assessment Techniques

PRA techniques	Mean	SEM	Median	Mode	SD	V	Min	Max
Expert opinion	3.15	.170	4.00	4	1.450	2.102	1	5
Judgment and intuition of manager	3.07	.160	4.00	4	1.378	1.899	1	5
Scenario development	2.14	.171	1.00	1	1.447	2.093	1	5
Standardised checklist	1.89	.145	1.00	1	1.228	1.509	1	4
Delphi technique	1.69	.148	1.00	1	1.249	1.560	1	5
Scenario development	1.69	.132	1.00	1	1.121	1.257	1	4

Table 4 shows that respondents indicated which technique (s) it used and to what extent such a technique (s) is/are successful for analysing political risks. From the results of the Mean scores ranging from 3.15 to 1.69, Mode scores ranging from 1 to 4 (where 1 stood for 'Not used' 2 'Used with no success', 3 'Used with no Moderate' 4 'Used with great success' or 5 'Used with Extreme success'). It submits that the respondents used judgment and intuition of manager and expert opinion techniques more than other techniques.

Table 4. Political Risk Assessment Ratings/Models

Political Risk Assessment Ratings/Models	Mean	SEM	Median	Mode	SD	V	Min	Max
International Country Risk Guide (ICRG)	1.75	.153	1.00	1	1.297	1.683	1	5
Economist Intelligence Unit (EIU)	1.53	.125	1.00	1	1.068	1.141	1	4
Political Risk Services (PRS)	1.32	.117	1.00	1	.990	.981	1	5
Euro money Business Environment Risk Intelligence (BERI)	1.18	.090	1.00	1	.762	.580	1	5
Brink's Model (BM)	1.04	.042	1.00	1	.356	.127	1	4

Table 4 displays that respondents indicated the rating model (s) they used if any and to what extent such a rating model (s) is/are successful in analysing political risks in their firm. From the results (where 1 stood for 'Not used', 2 'Used with no success', 3 'Used with no Moderate', 4 'Used with great success' and 5 'Used with Extreme success') most of the respondents indicated that they do not use most of these assessment ratings/models. It indicates that the respondents do not conduct PRA with these ratings/models for the most part.

Table 5. ICRG - Political Risk Assessment Dataset for Nigeria (2011-2015)

Serial	Political Risk Variables	Index Weight	2011	2012	2013	2014	2015	Net Change
1	Government Stability	- 12	8.0	7.5	8.0	6.0	7.5	
2	Socioeconomic Conditions	- 12	2.0	2.0	2.0	2.0	2.0	
3	Investment Profile	-12	6.5	6.5	6.5	6.0	6.0	
4	Internal Conflict	-12	6.6	6.6	6.5	6.0	6.0	
5	External Conflict	-12	9.5	9.5	9.5	9.0	9.0	
6	Corruption	- 6	1.5	1.7	1.5	1.5	1.5	
7	Military in Politics	- 6	2.0	2.0	2.0	2.0	2.0	
8	Religions in Politics	- 6	1.5	1.5	1.5	1.5	1.5	
9	Law and Order	- 6	2.0	2.0	2.0	2.0	2.0	
10	Ethnic Tensions	- 6	2.0	2.0	2.0	2.0	2.0	
11	Democratic Accountability	- 6	3.5	3.5	3.5	3.5	4.5	
12	Bureaucracy Quality	- 4	1.0	1.0	1.0	1.0	1.0	
	Total points	**- 100**	45.6%	45.0%	46.0%	42.5%	45.0%	
	Annual percentage change		0.0%	-1.3%	2.2%	-7.6%	5.9%	-0.8%

Source: PRS Group (2015)

Table 5 shows a dataset by ICRG PRA annual rating report conducted for Nigeria within the period from 2011 to 2015 ranged from 42.5% to 46.0%. This risk rating indicates that a very high political risk ranking was reported by the ICRG for Nigeria within the period. The highest annual percentage change of political risk 5.9% for Nigeria was recorded from 2014 to 2015. This indicated the best improvement that was made in the country political risk ranking within the period. The best political risk ranking of 46.0% was recorded in 2013. The net percentage change over this period is -0.8%, implying by this margin no significant reduction was experienced in the level of political risk within the period by ICRG. The variables used as risk indicators showed minimal changes with some appearing constant over the period. This means no risk indicators can be used to adequately explain any likely variations that can happen among them when forecasting political risk in the context of Nigeria.

The content analysis focused on numbers and words in the context of their meaning from the ICRG PRA interpretation. It was conducted in three phases; first the ICRG PRA rating dataset within the period 2011 to 2015 was prepared to identify and select relevant information as shown in Table 5. Next was the organising phase where an analysis matrix was developed to

compare the different year's political risk report for the period 2011 to 2015 before the results of the analysis obtained were finally reported. The total percentage points for each year's within these periods indicates a very high level of political risk with none above 49.9% from 2011 to 2015. The annual percentage change information selected showed -0.8% which means that the marginal change was negative and insignificant. The political risk variables information selected for each year mostly showed minimal changes with some appearing constant over the period. The content analysis of the selected information showed that a very high level of political risk was reported on Nigeria within this period with a negative and insignificant marginal change, as well as with minimal changes among the political risk variables used by ICRG for PRA.

DISCUSSION

The qualitative nature makes these techniques rely on individual or collective judgement more than the PRA rating/models that are scientific in their approach involving multivariate analysis or quantitative modelling. Yet, Kobrin (1982) proposed on the contrary that different methodologies should be distinguished on the basis of their degree of systematisation, which involves explicit and implicit assessments, which is intricate to replicate and entails a mental process.

One possible explanation by Brink (2004) argues that measuring political risk to a large extent necessitates subjectivity, which requires human judgement. Hood and Nawaz (2004), in supporting this assertion, stated that "its measurement and management frequently tends to be more subjective than objective", making the entire process require more qualitative approaches than quantitative. One explanation of the finding by Brink (2004) is that the techniques involving qualitative approaches by multinational firms are more widely used than the quantitative approaches, even though the former is subjective and susceptible to bias or inaccuracies. Previous studies conducted in the context of different countries, in contrast with quantitative techniques of PRA, have shown that the use of qualitative techniques are dominant within Canadian firms by Rice and Mahmoud (1990), Dutch firms by Pahud De Mortanges and Allers (1996), UK firms by Wyper (1995), Swedish firms by Kettis, (2004) and Jordanians firms by AI Khattab et al. (2011) .

The most frequently used technique is the judgement and intuition of managers. This technique was the most commonly used technique within Jordanian firms (Al Khattab, et al., 2011), within Canadian firms (Rice & Mahmoud, 1990) and within Dutch firms (Pahud De Mortanges & Allers, 1996). The judgment and intuition of managers, on the other hand, was the second most commonly used technique within US firms (Subramanian et al., 1993) and was also a commonly used within Swedish firms (Kettis, 2004). This qualitative technique also has the highest percentage of self-reported success relative to other techniques by participant firms; the 'most useful' for US respondents (Hashmi & Baker, 1988); the 'most successful' for Canadian respondents (Rice & Mahmoud, 1990) and the 'most positive' for Turkish respondents (Demirbag & Gunes, 2000). This finding confirms that multinational firms are generally satisfied with this technique for assessing political risk.

Another frequently used technique is expert opinion. The degree of bias and the subjectivity of this technique is a limitation according to Kobrin (1982), but in spite of this potential difficulty, earlier preceding studies have revealed that the expert opinion is widely used among Canadian, Dutch and US firms (Pahud De Mortanges & Allers, 1996; Rice & Mahmoud, 1990; Subramanian, et al., 1993). The successes of this technique has been highly acclaimed, as well as recorded in countries such as the US, Canada, Turkey and Holland, according to Hashmi and Baker (1988), Rice and Mahmoud (1990), Subramanian et al. (1993), Pahud De Mortanges and Allers (1996) and Demirbag, Gunes, and Mirza (1998).

Expert opinion (known as old hand) is a technique that seeks the views of respective experts or consultants from the area or country of an investor's destination. It is different from the judgement and intuition of managers, because it relies on multiple numbers of consultants covering all the areas of interest, with a focus on political risk. Hashmi and Baker (1988); Rice and Mahmoud (1990); and Demirbag et al. (1998) all acknowledged the success of this technique within US, Canadian and Turkish firms, while Subramanian et al, (1993) and Pahud De Mortanges and Allers (1996) illustrated it as the first and the second most widely used technique among the US and Dutch firms they surveyed. These findings show that multinational firms are generally satisfied with this technique for assessing political risk.

Most studies conducted on PRA using quantitative rating models were reported more in the context of developed countries than the developing ones. Even in the context of developed countries, more qualitative techniques were reported to be used than the quantitative rating

models of Rice and Mahmoud (1990) for Canadian firms, Subramanian et al. (1993) and Stapenhurst (1995) for US firms, Wyper (1995) for UK firms, Pahud De Mortanges and Allers (1996) for Dutch firms, and Kettis (2004) for Swedish firms. In the context of developing countries it was reported by Demirbag et al. (1998) for Turkish firms and Al Khattab et al. (2011) for Jordanians firms, that the quantitative rating models were hardly ever used.

This finding can be explained by two likely causes regarding why most respondents refrained from the use of quantitative techniques. Firstly, the use of quantitative techniques requires particular data that can theoretically lend themselves to statistical operations. Suitable data may not be readily available (Brink, 2004). Moreover, data obtained from developing countries are rarely without inaccuracies and contradictions. The collection of political data can also be a difficult process, due to the secondary sources of information. Another major problem is in terms of comparability of numeric data to be amenable to quantification, since some risk variables and indicators are not easily measurable and they require rigorous standards of operationalisation to be used. This causes most PRA models to build in exogenous factors that are susceptible to changes, therefore causing inconsistencies in these models. Secondly, the use of quantitative techniques requires "statistical background" which often requires the use of computers, and interpreting results obtained after such an assessment needs particular skills. Therefore, it is for this reason that the two impediments facing most multinational firms in assessing political risk: lack and/or irrelevance of information and lack of skills required for risk assessment.

This finding may be explained by the fact that the limitations of these risk rating models negate their potential to adequately produce a result on the assessment of investment climate regarding the probability of a risk occurring in an emerging market. This finding is consistent with Brink's (2004:47) proposition that that "model is a simplification of reality, there will always be something missing from the final application regardless of how many times it is planned and redesigned". Some of the limitations observed in the rating models are: the inability to determine the type of losses that can affect a specific firm, since they are of different sizes in terms of value, the contentious nature of grading systems and the difficulty of interpreting most of the rating models, the credibility of the data used by the rating models and the impossibility of including every risk variable that could have an input on the profitability of foreign investment. Therefore, with accurate data during PRA, it is possible to

assess the state of a country's economy to understand the reason why a country experiences rapid economic growth (or regression), and the reason for recessions or depressions from the risk indicators data that were used.

This study corroborates the findings of a great deal of the previous work in this field by Howell and Chaddick (1994), using quantitative approaches that tested the reliability of three PRA models (EIU, PRS & BERI) to forecast risk projection within specified periods, as well as countries, Nel (2007) revisited the same test, covering different periods, and empirically corroborated the results. However, their findings confirmed that there exists a high degree of variation among the models when used for the same assessment. Equally, some empirical studies have shown how unsuccessful quantitative techniques can be, mainly in the forecasting or predicting of political risk, due to its sophistication and unreliability (Cosset & Roy, 1991; Eichengreen et al., 1995; Oetzel et al 2001). This explains the reasons for the low usage of these quantitative PRA rating models compared to the qualitative PRA techniques.

The dataset of the ICRG PRA annual rating conducted for Nigeria within the period 2011 to 2015 was analysed. The results of the ranking ranged from 42.5% to 46.0% and revealed that a very high political risk ranking was reported by the ICRG for Nigeria within the period. In explaining this finding, PRS Group (2015) argues that it is possible for poor political risk in a country to be compensated by a good financial and economic risk. This implies that other factors can influence the consequences of political risk on multinational firms, which is line with the findings of the primary data collected. This also explains why some firms invest in emerging markets' like Nigeria, despite the presence of political risk. The finding showed that the net percentage change over this period was -0.8%, which implies that by this margin no significant reduction was experienced in the level of political risk during the period. However, World Bank (2013), UNCTAD (2013) reports and primary data collected revealed that FDI in Nigeria has increased within this period. Nevertheless, the results showed that the best political risk ranking of 46.0% was recorded in 2013. Likewise, the variables used as risk indicators showed minimal changes with some appearing constant over the period. This implies that no risk indicators can be used to adequately explain any likely variations that can happen among them when forecasting political risk in the context of Nigeria.

CONCLUSION

Political Risk Assessment (PRA) is a key determinant for Foreign Direct Investment (FDI) and competitiveness of multinational firms, yet little is known about PRA in emerging markets. This study has been aimed at investigating methodologies use for political risk assessment in an emerging market by multinational firms. It has empirically used a multi-methods approach to analyse data collected through statistical methods and content analysis from 74 multinational firms in Nigeria. The dataset of the International Country Risk Guide (ICRG) PRA annual rating for Nigeria within the period 2011 to 2015 was also analysed.

One of the more significant findings to emerge from this study is that qualitative techniques of conducting PRA are more commonly used than quantitative techniques, which can be distinguished from each other based on their applications. The results have shown that most firms in Nigeria hardly conduct PRA using these quantitative ratings. Most studies have shown that the use of quantitative rating models is more common in the context of developed countries than in developing ones. Even in the context of developed countries, qualitative techniques were reported to be used more commonly than quantitative ones. The evidence from this study suggests likely causes regarding why most respondents refrained from the use of quantitative techniques. The use of quantitative techniques requires particular data that can theoretically lend themselves to statistical operations. Most data obtained from emerging markets are rarely without inaccuracies and contradictions. Therefore, with accurate data during PRA, it is possible to assess the state of a country's economy to understand the reason why a country experiences rapid economic growth (or regression), and the reason for recessions or depressions from the risk indicators data that were used.

The findings of the dataset of the ICRG PRA annual rating conducted for Nigeria within the period 2011 to 2015 have shown that it possible for very high political risk to be reported on a country and be compensated with a low financial and economic risk (PRS Group, 2015). This has suggested why some firms invest in emerging markets like Nigeria, despite the presence of a high political risk. It can be submitted as one of the factors that can influence the consequences of political risk. Another major problem is in terms of the comparability of numeric data to be amenable to quantification, since some risk variables and indicators are not easily measurable and require rigorous standards of operationalisation, if used. This causes most models to build in exogenous factors that are susceptible to changes, therefore causing

inconsistencies. It has been evident in this study that these rating models have limitations which negate their potential to adequately produce a result on the assessment of the investment climate regarding the probability of a risk occurring in an emerging market. This is as a result of their inability to determine the types of losses that can affect specific firms, since they are of different sizes in terms of value and the impossibility of including every risk variable that could have an input on the profitability of foreign investment, which remains a problem. "A model is a simplification of reality; there will always be something missing from the final application regardless of how many times it is planned and redesigned" (Brink, 2004:47).

It has been evident from this study that the techniques developed for conducting PRA exist along a spectrum of both qualitative and quantitative methods, with a mixture of subjective and objective approaches. They inevitably have both disadvantages and advantages, and there is not likely to be just one best methodology. They are like theories in that cannot be true or false; only more or less useful, as suggested by Silverman (2011: 53). This suggests that no PRA methods and techniques are more or less useful; rather they depend on the accuracy of the data and the results obtained in the host country. This suggests that firms' ability to conduct PRA is key to their successful management of political risk in host countries. The resultant inability of some multinational firms to fully understand different political environments has resulted in across-the-board policies dichotomising emerging markets as safe or unsafe, as concluded by Fitzpatrick (1983, p. 251). Therefore, successful management and mitigation of political risk is premised on the accuracy of PRA reports to an emerging market.

Implications of Findings for Practice

This paper has demonstrated that the empirical investigation of the conduct of a country's PRA goes beyond perspectives, to identify scenarios in the economic and political environment, including its potential impact. PRA can also be used to assess the state of a country's economy and the reasons why some countries experience rapid economic growth (or regression), and the reason for recessions or depressions could be known from the risk

indicators data that were used. All these factors depend on the quality of governance, strength of regulatory institutions and policies of the government of the host country in a political environment. Therefore, PRA can be used to identify the critical gaps or weaknesses in the economic and political systems of a country. This would influence the decision making by multinationals with regards to whether or not to internationalise to a specific emerging market.

This study has shown that there are implications when the values of a country's macro-economic data used in methodologies to conduct PRA contradict the political environment. PRA methods or techniques can be more or less useful depending on the accuracy of the data and results obtained for a host country. The knowledge that empirical investigation is relevant in the analysis and evaluation of political risk provides a better understanding of a country's political and economic environment, which is a positive development for this research field. This would influence how multinational firms conduct their PRA and there are less likely to use quantitative applications for PRA. Firms would need to consider this limitation when exploring quantitative PRA methodologies in order to improve the quality of the results they obtained, especially to emerging markets.

This study has shown that the presence of high political risk does not deter firms if the financial and economic risks are low (PRS Group, 2015). This implies that are other factors could influence firms' to internationalise into a particular market apart from political risk. This has suggested why some firms invest in particular emerging markets, despite the presence of high political risk. Therefore, multinational firms would need to consider if financial and economic risks apart from political risk when making their decision during market entry.

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