

# Political Risk Assessment by Multinational Corporations in African Markets: a Nigerian Perspective

## Executive Summary

Political Risk Assessment (PRA) is one of the determinants of Foreign Direct Investment (FDI) and for the competitiveness of Multinational Corporations (MNCs), yet little is known about it in most African markets. This study critically investigates of PRA techniques used by MNCs in Nigeria and their applicabilities. It empirically used a multi-method approach to analyse data collected from MNCs and the dataset of the International Country Risk Guide (ICRG) PRA annual rating for Nigeria from 2011 to 2015. The findings reveal that most firms use qualitative than quantitative PRA techniques due to some reasons and limitations. This paper's findings contributions offer some implications for practice to the extant body of literature on PRA with some suggestions on how it could influence the African firms' internationalisation and conduct of PRA. Thus identifying why some firms have invested in some markets despite the presence of high political risk.

Keywords: political risk, multinational corporations, Africa, foreign direct investment, political risk assessment, Nigeria

## INTRODUCTION

The importance of Political Risk Assessment (PRA) for Multinational Corporations (MNCs) firms operating in African markets has increased significantly with the growing rate of Foreign Direct Investment (FDI) (Baek and Qian, 2011; Jiménez et al., 2014). PRA is used for managing political risk, decision-making processes for firms' internationalisation, and has been identified as one of the key determinants of FDI into African 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 MNCs operating in African market due to its consequences (World Bank, 2014, p. 5). The quest for growth and competitions among MNCs is increasing the rate of FDI into African markets. It is influencing the internationalisation of African firms and changing the dynamics of international business within the continent (UNCTAD, 2014;2016). FDI trends in Sub-Saharan Africa is significantly appreciating, but a slight 7% inflow decline was witnessed in 2015 (UNCTAD, 2016). Most studies conducted have been more concerned about FDI, due to it having more consequences of a political risk than on other forms of international investment (Bekaert et al., 2014; Filipe et al., 2012; World Bank, 2014).

Assessing how MNCs can operate successfully and profitably in African markets in spite of the presence of political risk has continued to gain significant attention due to its evolving political

environments (Kerner and Lawrence, 2014; Khan and 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 (Howell, 2014; Mshelia, 2015, p.51). However, most African markets have more unstable political environments with more frequent changes in government policy compared to the developed countries (Baek and Qian, 2011). It is for this reason that different PRA methods have been developed over the years to mitigate and manage political risk consequences.

Previous studies have shown that the consequences differ from one African market region to another, which have influenced the types of multinational strategy firms adopt (Baldacci et al., 2011). This means that each market within the African region has the specific political risk that differentiates one from another, therefore creating different scenarios for MNCs to assess (Bekaert et al., 2014; Quer et al., 2012). The Sub-Saharan Africa is regarded as a high risk but significant inter-country variation between risk perception versus actual risk. Since each market has specific political risk factors that differentiate one from another, likewise MNCs have specific characteristics that make them perceive political risk differently (Baldacci et al., 2011; Bekaert et al., 2014). Therefore, there is a need for political risk assessment (PRA) in a particular African market which will incorporate all the specific political risk factors to improve foreign investors' operations.

PRA is a prerequisite to a successful international business operation for MNCs to consider before and while investing by analysing political risk so that they can achieve returns on their investment (Al-Khattab et al., 2011). An assessment that can predict business risks in a foreign environment requires due diligence analysis of risks in an African market (Sottilotta, 2015). It is important to use methodologies by which the business can seek information on a particular African market to assess the consequences of political risk on its investment, which can only be achieved through a detailed assessment of political risk. According to Howell (2011, p. 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, and Kruys, 2008). Assessing political risk is relevant; so that the type of investment, entry strategy and ownership structure can be determined during the internationalisation of MNCs within African markets.

However, until the last decade, studies on political risk has received relatively little attention within the context of African markets. Recent studies have shown that only a few empirical studies have been conducted in African markets and most were conducted in developed countries (Al-Khattab et al., 2011). Most reports on African markets have generalised based on a single event in some countries. Dichotomising African markets has therefore made it imperative to investigate if there is a correlation between the different PRA methodologies used and the outcome of their assessments. It would provide more insights if there are any inherent biases which were one of the key criticism of the risk analysis prior to the global financial risk in 2007. It is against this backdrop of these challenges that this paper intends to investigate the techniques used for PRA by MNCs operating in African markets.

According to World Investment report (2016) "with overall FDI inflows declining by 7 percent in 2015, Africa's share in global FDI fell to 3.1 percent (down from 4.6 percent in 2014)" (UNCTAD, 2016, p.37). It was mainly because of a decline in investment to Nigeria, one of Africa's largest economy, which FDI flows fell from \$4.7 billion in 2014 to \$3.1 billion in 2015 (UNCTAD, 2016). Despite the ever-present flux in her political situation, the country has witnessed a variable inflow of FDI (Imoudu, 2012). The objectives of this paper are to investigate the PRA techniques used in African markets and their applicabilities for the during MNCs internationalisation. To find out if there is any significant correlation between the different PRA methodologies used and the outcome of their assessments for Nigeria. This study empirically used a multi-method approach to analyse data collected through statistical methods and content analysis from MNCs 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. The paper is structured into six parts, first is this introductory part, the second part is a theoretical review and literature about political risk in Nigeria including internationalisation of MNCs. The third part is about PRA methodologies; the fourth part is about the methodology and analysis of findings adopted for the study, the fifth part discusses the findings, and the sixth part is about the study's contributions with a conclusion.

## THEORETICAL REVIEW

Political risk in international business emerged as a distinct field of study without an all-encompassing construct setting forth the ostensible underlying principles that show the

relationship between how MNCs response to individual host country's policies (Grosse and Behrman, 1992; Robock, 1971). Even though some theories have explained the behaviours of MNCs in different political environments, but none has shown their cross-national behaviour explaining how firms' response to different political environments or policies.

Government institutions are responsible for making policies that constitute political risk in their political environment for MNCs. Political risk could be mostly institutional in nature, even though some emerge due to inherent factors in different political environments like some other risks. Some earlier studies have tried to correlate political risk to institutional theory by explaining that it influences firms' decisions during internationalisation (Dunning, 1980; Osabutey and Okoro, 2015; Quer, Claver, and Rienda, 2012). Given the fact that firms make decisions when responding to different institutional environments as they move from one country to another, institutional theory becomes applicable (Meyer, 2008; Peng, Wang, and Jiang, 2008; Quer et al., 2012). There is a wide-ranging theoretical concept with underscores on legitimacy, rational myths and isomorphism which emphasises more on resilient facets of social structure know as the neo-institutional theory. The legitimacy aspect of neo-institutional theory posture will be considered in the context of this paper since most firms habitually will want to achieve legitimacy in their host country (Meyer, 2008). The legitimacy viewpoint of the neo-institutional theory could be used to explain, as firms move from either a developed economy to an emerging one or vice versa they respond to different institutional regulations to attain legitimacy (Meyer, 2008; Quer et al., 2012). Therefore, this suggests that the changes these institutions make in their regulations could result in the emergence of political risk in some markets, especially if these are weaknesses in institutions or instability in the political environment.

Both formal and informal 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 MNCs. (Meyer, 2008; Peng et al., 2008; Quer et al., 2012; Witold and Swaminathan, 2008). Subsequently, the regulations set by these government institutions are parameters which can determine the differences between a non-profitable investment and profitable investment. Literature about political risk and the internationalisation of MNC in Nigeria would provide insights into some of the attributes of MNCs that differentiate or influence one from the others, including how they perceived political risk and PRA conduct using.

## Political Risk in Nigeria

There is a limited, but rapidly, growing literature regarding political risk in Nigeria. Since the country's amalgamation in 1914, it has undergone a series of transformations that have shaped and reshaped its political landscape. Subsequently, after her independence in 1960, a number of political and economic reforms were introduced by both the military and democratic governments that had consequences for MNCs (Umoren, 2001). Political risk started to emerge in the country after 1966 with the staging of a military coup, and then a civil war occurred from 1967 to 1970. Then from 1972, the government introduced a succession of policies that led to the nationalisation of a number of MNCs, coupled with a number of military interventions in the government, as well as different political and religious crises (Orugbani, 2005). An increasing wave of terrorism, high level of corruption, high rate of unemployment, inadequate infrastructure, poor legal system and the unstable situation in the oil-rich Niger Delta region have been reported in the country (Wafure & Nurudeen, 2010). Likewise, the dataset of ICRG PRA annual rating conducted for Nigeria within the period from 2011 to 2015 reported a very high political risk score (PRS Group, 2015).

According to Nigerian National Bureau of Statistics (2012b, p. 11), 'despite the growth of the Nigerian economy, ironically, the percentage of Nigerians living in poverty is on the increase'. The report demonstrated that the percentage of the poverty rate of the population increased considerably during the period 1980 to 2010, with the northern part having the highest percentage. In research conducted by the World Bank on the Investment Climate Assessment Report 2012, it was reported that in 26 states, investors in Nigeria lost 10 percent of their revenue due to poor infrastructure, crime, corruption and insecurity. It also reported that 80 percent of firms offer bribes to government officials for one reason or another. (Iarossi & Clarke, 2011).

## Internationalisation of MNCs in Nigeria

Although there is a dearth of literature on MNCs in Nigeria, MNCs have been investing in Nigeria even before the country gained independence in 1960. The Nigerian investment climate was under foreign control because foreign investors dominated the ownership and management of firms in the country. A number of MNCs such as Shell, John Holt, Patterson Zocohonis (PZ) and the Swiss Union Trading Company (UTC), Societe Commercial de l'Quest African (CFAO) and Barclays Bank (and others) have invested in Nigeria. However, in the past, it was only the

government who was involved in the internationalisation of business in Nigeria. The government conducted international trade by exporting crude oil and agricultural products such as groundnuts, cocoa, and cotton to other countries (Ake, 1985a, 1985b).

In 1972, there was a trend changed when the Nigerian government promulgated an Indigenisation Policy Act, aimed at promoting local participation in the economy (Ake, 1985b). It led to the nationalisation of some foreign firms in the banking and oil sectors, with the Federal Government acquiring 40 to 60 percent shares. The policy affected the ownership and the control of MNCs in various ways which resulted in a drop in the number of foreign investors coming into the country. (Frynas & Mellahi, 2003). Subsequently, this led to some policies reform by the government which offers more incentive to encourage more foreign investors into the country. It has been reported that some MNCs of African origin, mostly from South Africa, Morocco and Nigeria. These African MNCs have started internationalising within countries in the region. However, this significant increase in the number of Sub-Saharan Africa's MNCs internationalising within the continent (Top 500 Companies in Africa, 2014). A number of variables are used as criteria to measure a firm's degree of internationalisation, such as number of years, revenue generated and coverage in international business (Al-Khattab et al., 2011). However, some MNCs might have certain characteristics due to differences in the nature of businesses and entry modes that does not necessarily reflect their degree of internationalisation. MNCs' decisions to internationalise depend on a wide range of factors, considering the costs and benefits of each mode of entry, and most importantly their perceptions of risk and how it can be mitigated (Bekaert et al., 2014).

There are different dimensions about risk perceptions due to certain diverse attributes among MNC such as their degree of internationalisation, structure, and behaviours amongst others that influences to what extent changes in PRA are significant to each for a country. For example, there are differences in risk perception and actual risk between new entrants and the accrued operating experience of incumbents. Likewise, differences in firm behaviour are owing to different attitudes to risk (risk takers versus risk-averse), which may also vary by sector, home country and age amongst others (Liesch et al., 2011). There is endogeneity between firm entry and perceptions of risk. The greater the profitability of incumbents, the more likely it is that new firms will enter (hence greater FDI inflows), the lower the perception of risk but likely returns can be expected to fall owing to increasing competitive intensity (Kraus et al., 2015).

A firm's degree of internationalisation increases, its exposure to political risk increases at the same time as its perception of political risk lowers (Al-Khattab et al., 2011). It means that most firms with a high level of internationalisation would tend to operate in riskier markets. They could manage political risk based on their knowledge of the market than firms with a lower degree of internationalisation (Iankova and Katz, 2003; Al-Khattab et al., 2008). However, firms have various institutional arrangements with different leverage that enables them to operate even in the presence of some types of political risk and weighing up that the consequences will have less impact. Their perceptions of political risk vary and are based on the differences among countries' governmental policies which influence their perceived reward (return on investment). The literature shows that firms conduct PRA using to determine the extent of political risk using different methods existing 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 METHODOLOGIES

### Political Risk Assessment Techniques

Some 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, structures and limitations. (Al-Khattab et al., 2008; Brink, 2004; Howell, 2014) Rummel and Heenan (1978). Brink (2004) and Kettis (2004) suggest that the different current methodologies are a mixture of subjective and objective approaches which require either a qualitative or quantitative method. While the former method relies on an individual or collective judgement, the latter is scientific in its approach involving multivariate analysis or quantitative modelling. Kobrin (1982) proposed that different methodologies should be distinguished by 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 (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 and 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 tend to be more subjective than objective", meaning that the entire process requires more qualitative approaches than quantitative.

It is given these reasons above that there are more studies conducted using techniques involving qualitative approaches than quantitative approaches (Al-Khattab et al., 2008; Pahud de Mortanges and Allers, 1996). Pahud de Mortanges and Allers (1996), Rice and Mahmoud (1990) and 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.

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	a more structured approach	future events not taken into consideration
5.	Scenario Development	Assessing the implications of possible scenario	Flexibility	relies on the prediction

Political Risk Assessment Ratings/Models

For 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 ratings 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 a 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 in 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 a 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 (Howell, 2014). The different types of PRA models are shown in Table 2.

Table 2: Types of PRA 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, (2002) and Brink, (2004)

Table 2 above summarises the features that differentiate the nine described rating methodologies and models. This shows the differences that limit 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 African 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 regarding value (Howell and 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, p.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 African 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 African market. Therefore, there is a need for a firm to consider the use of an appropriate PRA methodology before internationalising to an African market.

METHODOLOGY, DATA SET AND ANALYSIS

A database of 247 firms from Nigerian Stock Exchange in Lagos and the Corporate Affairs Commission in Abuja were used to identify MNCs operating in Nigeria; A pilot study conducted helped to identify further 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 MNCs 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 an online questionnaire using descriptive statistical techniques and content analysis for the dataset of the ICRG, PRA annual rating for Nigeria within the period 2011 to 2015 was also analysed.

Validity and Reliability Test

The validity and reliability of data were ensured through statistical techniques, questionnaire piloting and vetting to certify that factors such as sensitivity, precision, resolution and replicability of the instrument for accuracy and consistency of the research findings (Bryman & Bell, 2015; Creswell, 2014). Cronbach's alpha coefficient was used to check the scales used in the questionnaire for internal consistency to guarantee that the instrument will provide an accurate measurement. From the results in Table 2, values from 0.7 are considered adequate; but, values up to 0.8 or more are preferable (Fields, 2013).

Table 3: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	Number of Items	Number of cases
0.86	0.953	117	74

### Characteristics of Nigerian MNCs

Table 3 displays eight classifications category used for the respondents to characterised MNCs in Nigeria into their type of industry, business, entry mode, size and degree of internationalisation. In assigning the respondents per type of industry, Table 3 discloses that petroleum and gas 32.4 % of them and manufacturing represented 36.5% of them. In apportioning the participant firms by type of multinational business, Table 3 discloses that FDI internationalised 64.9 % of the firms. In assigning the respondents MNCs according to entry mode of internationalisation, 56.8% of the firms did so by owning subsidiary. Classifying them by size, based on firms' assets and number of employees (1 Billion Naira equivalent of \$ 136 million), Table 3 discloses 58.1 % of mostly large -size firms compare to others, while 71.6 % were mostly large -size firms with more than 300 employees. In determining their degree internationalisation, using variables such as revenue generated, number of countries operating and years to determine high, medium and low of internationalisation. Table 3 indicates 51.4 % of low-internationalised firms mostly, 52.7 % of more medium-internationalised firms from revenue generated and 45.0 % of low-internationalised firms as of the number of countries operating.

Table 4: Description of Characteristics of MNCs

Characteristics of Nigerian MNCs		Frequency	Percentage
Type of Industry	Manufacturing	27	36.5
	Petroleum & Gas	24	32.4
	Banking	12	16.2
	Insurance	5	6.8
	Construction	3	4.1
	Communication	3	4.1
Type of Business	FDI	48	64.9,
	Export/Import	24	32.4
	FPI	1	1.4
	Others	1	1.4
Entry Mode	Owning Subsidiary	42	56.8
	Branch/Office	12	16.2
	Franchise/Licensing	5	6.8
	Joint Venture	5	6.8
	Manufacturing Contract	3	4.1
	Strategic Alliance	3	4.1
	Other	4	5.4
Asset	Below N1 billion	3	4.1
	N1 billion -- N10 billion	14	18.9
	N10 billion -- N20 billion	14	18.9
	Above N20 billion	43	58.1
Number of Employees	Below 50	4	5.4
	50 -150	7	9.5
	150 - 300	10	13.5
	Above 300	53	71.6
Number of Years	2 – 9	38	51.4
	10-29	12	16.7
	30-90	24	32.9

Revenue Generated	Below N160 Million	8	10.8
	N160Million – N320Million	27	36.5
	N320Million -- N2billion	16	21.6
	Above N2 billion	23	31.1
Number of Operating Counties	High	25	33.7
	Medium	16	21.3
	Low	33	45.0

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 5. 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 5 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 6. 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 6 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 6. 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 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 in 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.

### Africa FDI Outflows by Regions

Table 7: Africa Regions FDI inflows, 2010–2015 (Millions of dollars)

Region/Year	2010	2011	2012	2013	2014	2015
Africa	43 571	47 786	55 156	52 154	58 300	54 079
North Africa	15 746	7 548	15 759	11 961	11 625	12 647
Other Africa	27 826	40 238	39 397	40 193	46 675	41 432
West Africa	12 008	18 956	16 873	14 493	12 115	9 894
Central Africa	7 777	7 367	8 948	7 874	9 091	5 830
East Africa	4 520	4 779	5 474	6 790	7 928	7 808
Southern Africa	3 521	9 137	8 101	11 036	17 540	17 900
Nigeria	6 099	8 915	7 127	5 608	4 694	3 064

Source: UNCTAD (2016)

Tables 7 displays Africa regions FDI inflows from 2010 to 2015 (Millions of dollars). It shows irregular increase and decline in the overall FDI inflows into Africa and within its regions from 2010 and 2015. Africa's share in global FDI fell to 3.1 percent (down from 4.6 percent in 2014)" indicating a decline by 7 percent in 2015. Its other regions experienced an almost similar drop in the inflow of FDI in 2015. Nigeria also witnessed the same decline with uneven increase and decline in her overall FDI inflows between 2010 and 2015.

## DISCUSSION

The characteristics of MNCs from Table 4, displayed that a high FDI by a subsidiary with most investments of over 2 billion dollars and are mostly large-sized MNCs having more than 300 employees. Their degree of internationalisation by number of years indicated that there is a higher number of low-internationalised corporations, suggesting an increase in the inflow of FDI between 2013 and 2014. This finding is inconsistent with UNCTAD (2016) report that was an increase in the inflow of FDI into Nigeria and Africa. The disparity in each determinant of internationalisation confirms that firms' degree of internationalisation varies in terms of years, coverage and revenue generated.

The continuous flux in the political environment in Nigeria reported over the years makes analysing insignificant changes in the PRA scores and the trend in FDI challenging. Therefore, it would make it problematic to determine to what extent to expect a strong correlation and to over what sort of period. Likewise, determining to what extent any changes in FDI inflows reflect changes in other variables such as non-Nigerian PRA. Therefore, it could be concluded that political risk is just one of the determinants of FDI inflow to Nigeria.

Each type of political risk has different consequences, even in the same political environment, and the consequences vary from one part of the country to the other can be used to explain how firms' behaviour can be influenced. Jiménez et al. (2014) and Kesternich and Schnitzer (2010) pointed out that its degree of internationalisation can influence consequences of political risk on a firm. This means the consequences of political risk will have less of an impact on a firm with a higher degree of internationalisation than a firm with a lower degree of internationalisation. A firm's leverage of operating in a particular political environment can influence the consequences of political risk. This means that the differences in these factors influence the consequences of political risk for MNCs in Nigeria. Political risk issues could be viewed as changing over time since the socio-economic and political situation keeps altering with changes in federal and state governments in Nigeria.

From the finding showing that qualitative techniques used for conducting PRA presented, most participants mostly use the judgement and intuition of manager and expert opinion techniques than other types of techniques. It implies that most of the MNCs who entry mode was owing subsidiary used these qualitative techniques. One possible explanation by Brink (2004) argues that measuring political risk necessitates subjectivity, which requires human judgement. Hood and Nawaz (2004) in support stated that its measurement and management frequently tend to be more subjective than objective, making the entire process require more qualitative approaches than quantitative. To Brink (2004) most MNCs are to use the qualitative approaches even though the former is subjective and susceptible to bias or inaccuracies. It has been widely reported by previous studies in the context of different countries, that the use of qualitative techniques is dominant in some countries (Pahud De Mortanges and Allers, 1996; Kettis, 2004; Al Khattab et al., 2011).

The finding on the use of quantitative techniques shows that it is hardly used for conducting PRA in Nigeria. The use of quantitative models were reported mostly in the context of

developed countries than the developing ones (Kettis, 2004; Al Khattab et al., 2011). Many of them are developed to demonstrate the forecasting of losses due to political risk (Howell, 2014). The two likely causes as to why the refrained use of quantitative techniques is that it requires particular data that can theoretically lend themselves to statistical operations and suitable data may not be readily available (Brink, 2004). The data obtained from some developing countries are rarely without inaccuracies and contradictions. In some instances, an increasing GDP data is reported along with an increasing poverty rate in Nigeria, which creates a contradiction. For this reason, applying such data would require a methodology that is designed to factor such error. 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. In line with Howell (2014), it causes most PRA models to build in exogenous factors that are susceptible to changes, therefore causing inconsistencies in these models. The use requires statistical background which often requires the use of computers, and interpreting results obtained after such an assessment needs particular skills. It is for this reason that the two impediments are facing most MNCs in assessing political risk in Africa: lack and irrelevance of information and lack of skills required for risk assessment. Therefore, this could create a significant variation in the results obtained between the qualitative and quantitative PRA methodologies for Nigeria. However, there is no evidence to demonstrate if the different means of assessments converge on very similar outcomes for Nigeria.

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 a host country. This finding is consistent with Brink's (2004, p. 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 experienced rapid economic growth (or

regression), and the reason for recessions or depressions from the risk indicators data that were used.

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 MNCs, which is line with the findings of the primary data collection. This also explains why some firms invest in African 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 to them when forecasting political risk in the context of Nigeria.

Some of the findings emerging from this study suggest that the outcome of PRA varies across the country. It is one of the factors that influence the FDI location of MNCs within a country. For this reason, it becomes challenging to determine to what extent changes in PRA is significant for a country and to what extent do the changes reflect actual rather than perceived changes. The differences in attributes such as their degree of internationalisation and behaviours to risk among MNC could influence to what extent changes in PRA are significant for a country. To Jiménez et al. (2014) a firm with high a level of internationalisation could operate in riskier markets based on its knowledge of the market while to Al Khattab et al. (2008) it tends to institutionalise PRA. It suggests that firms have various institutional arrangements with different leverage to operate even in the presence of some types of political risk, after weighing the outcome of PRA.

Contributions and Implications for Practice

This study has shown that there are implications when the values of a country's macroeconomic 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 from 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 Africans' MNCs conduct their PRA, and there are less likely to use quantitative applications for PRA. Firms would need to consider some of the limitations when exploring quantitative techniques to improve the quality of the results they obtained in African 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 African markets, despite the presence of high political risk. Therefore, Africans' MNCs would need to consider if financial and economic risks apart from political risk when making their decision during market entry.

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 Africans' MNCs with regards to whether or not to internationalise to a specific market.

The findings of this study could contribute to practice on how Africans' MNCs conduct their PRA in the sense that it would provide knowledge for those operating in similar African markets about how they could improve their conduct of PRA. This would improve the quality of the results they obtained for better understanding and operating in the political environment. This will, in turn, influence the type of strategies which MNCs adopt in terms of their entry mode into some African markets.

## CONCLUSION

Political Risk Assessment (PRA) is a key determinant of Foreign Direct Investment (FDI) and competitiveness of MNCs, yet little is known about PRA in African markets. This study has been aimed at investigating techniques used for political risk assessment by MNCs in an African market. It has empirically used a multi-methods approach to analyse data collected through statistical methods and content analysis from MNCs 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 African 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 experienced 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 in a country and be compensated with a low financial and economic risk (PRS Group, 2015). This has suggested why some firms invest in African 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 African 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 regarding the value and the impossibility of including every risk variable that could have 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, p.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, p. 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 MNCs to fully understand different political environments has resulted to dichotomising African markets. Therefore, successful management and mitigation of political risk are premised on the accuracy of PRA reports to an African market.

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