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Al Khattab, Adel, Anchor, J.R and Davies, Eleanor M.M.

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**MANAGERIAL PRACTICES OF POLITICAL RISK ASSESSMENT IN  
JORDANIAN INTERNATIONAL BUSINESS**

**Adel Al Khattab**  
**Al-Hussein Bin Talal University / Jordan**  
**College of Business School, Department of Business**

**John R Anchor**  
University of Huddersfield / UK  
**Business School, Department of Business Studies**

**Eleanor M M Davies**  
University of Huddersfield / UK  
**Business School, Department of Business Studies**

## Abstract

**THE AIM OF THIS RESEARCH IS TO EXAMINE CRITICALLY MANAGERIAL PRACTICES OF POLITICAL RISK ASSESSMENT (PRA)** in Jordan. In this research, unlike most recent studies, the managerial practices of risk assessment are examined within a firm-specific characteristics framework. In line with the research objective, a survey strategy was adopted: quantitative and qualitative methods were combined and staged.

A multi-methods approach was used to achieve different research purposes. Self-administered questionnaires were distributed to the entire target population of Jordanian international firms, while semi-structured interviews were held with managers in a subset of firms selected via a stratified sample of respondents to the self-administered questionnaires. In analysing the data, non-parametric statistics were used.

The main findings of this research are that the majority of firms conduct PRA occasionally, and that the assessment is most often motivated by an internal need such as an investment proposal. Different sources of information are used by international firms, of which internal categories are the most important.

# MANAGERIAL PRACTICES OF POLITICAL RISK ASSESSMENT IN JORDANIAN INTERNATIONAL BUSINESS

## INTRODUCTION

The majority of the surveys of the practices of political risk assessment (PRA) within international firms have been carried out in the context of developed countries, and have offered little by way of analysis of managerial practices of PRA in developing countries, including Jordan. An in-depth review of such literature, as will be discussed later, suggests that little effort has been made to explain the practices; rather, the main focus of previous studies has been descriptive. Consequently, the aim of this paper is to examine critically the managerial practices of political risk assessment within Jordanian international firms.

This objective serves as a benchmark, examining how often the process is conducted, what sources of information are used, what triggers the process and how the results of the assessment are used and reported. This objective, hence, is divided into three sub-objectives: a) to *describe* and *explain* the current managerial practices of political risk assessment within Jordanian international firms, regarding the frequency of assessment, the source of information used in analysing political risk, the triggers for conducting the process and risk reporting and communication; b) to *explore* the correlations between the current managerial practices of political risk assessment and firm-specific characteristics and c) to *compare*, where possible, the managerial practices of political risk assessment by Jordanian international firms with those practices reported in other countries.

The research is conducted in the context of Jordanian international firms. The focus on Jordan enables the research to explore how international firms, from developing countries, assess political risk and ascertain the reasons for divergent approaches to political risk assessment (PRA). In the same vein, the research is able to make a comparison between the findings in the context of Jordanian firms and those findings in different contexts. There have been no previous studies of PRA in Jordan or elsewhere in the middle East and very few in developing countries as a whole (Frynas and Mellahi, 2003).

## LITERATURE REVIEW

Political risk assessment (PRA) is defined as the process of analysing and evaluating political risk while undertaking international business activities (Al Khattab, 2006, p 66). The mainstream literature surveying the managerial practices of PRA studied one or more of the following aspects of the assessment process: frequency of conducting the process; sources of information used in the assessment process; the utilisation of risk assessment. These aspects of assessment process, along with the risk reporting and communication, are discussed next.

## TRIGGERS FOR CONDUCTING THE PROCESS

Demands for political risk assessment (PRA) may be triggered by events or activities both inside and outside the firm. A proposal for a new investment or the update of a firm's long range plan is an example of an internal stimulus. Wars, changes in taxation or regulations affecting the movement of capital, are examples of external events that may force managers to devote more attention to political risk than has been the case previously. A review of the literature suggests four triggers that can motivate international firms to conduct an assessment (Table 1). These triggers are: a) when proposing initial investment or reinvestment; b) when certain problems in the interested country occur; c) when conducting strategic planning processes; d) when granting credit to foreign customers.

Triggers	International firms	
	Canadian (%) a	Dutch (%) b
Initial investment or reinvestment	16.0	74.0
Certain problem occurs	N.A	26.0
Conducting strategic planning	15.0	49.0
Granting credit to foreign customers	42.0	49.0

**Table 1:** Triggers for conducting an assessment / comparison

a: Per centages add up to more than (N = 100) or 100 per cent because of multiple responses.

b: Per centages add up to more than (N = 23) or 100 per cent because of multiple responses.

- The Canadian study by Rice and Mahmoud (1990) and the Dutch study by Pahud De Mortanges and Allers (1996).

A typical case of political risk consideration, according to Burmester (2000), occurs when an international firm conducts an exploratory assessment to identify potential investment locations. The decision-makers of international firms, as suggested by Brealey and Myers (1991) and Buckley (2000), utilise PRA to identify a country or area where the firm enjoys a competitive advantage large enough to produce a return above its hurdle rate. In this context, a firm's hurdle rate (sometimes referred to as discount rate) is the return foregone by the firm as a result of investing a sum of money in a project, rather than in securities or any other risk-free investment. For international banks, on the other hand, the assessment is used to establish lending limits for particular countries. It can be argued that, from the perspective of international banks, integrating

the results of country risk assessment into international lending policy is particularly difficult. In establishing lending limits for particular countries, country risk clearly plays a role, but the risk is not the only variable. Another variable that should be considered is the connection that a given country has with other countries in its region; a particular country may, itself, have a sound economic and political location but adverse developments in the surrounding region could affect the country (Stapenhurst 1992a).

Previous PRA studies conducted in the context of Canadian firms (Rice and Mahmoud, 1990), North Atlantic firms (Stapenhurst, 1992a), UK firms (Wyper, 1995), Dutch firms (Pahud De Mortanges and Allers, 1996) and Swedish firms (Kettis, 2004) have shown that the assessment is usually 'reactive' and 'crisis-oriented'. That is, the process is usually undertaken 'on demand' as a response to unexpected events in a host country or when a new investment is proposed in a country. Although there is an agreement that the assessment process is conducted on demand within international firms, there are some differences within these firms with regard to the trigger for conducting the assessment. For example, an 'initial investment' decision was the most frequent trigger for conducting PRA within UK firms (Wyper, 1995) and Dutch firms (Pahud De Mortanges and Allers, 1996), while 'granting credit to foreign customers' was so within Canadian firms (Rice and Mahmoud, 1990). These differences, however, suggest that the type of trigger may be related to the characteristics of firms. However, since most of the aforementioned studies investigated the assessment's triggers in general (i.e. no attempt was made to relate the type of triggers to firm-specific characteristics), explaining the tendency of some firms to conduct the process on one particular occasion rather than on other occasions is not possible. An exploration of the potential correlations between the types of trigger with firm-specific characteristics is needed therefore.

## **FREQUENCY OF RISK ASSESSMENT**

Risk assessment can be conducted routinely or on demand. The routine process can be on a yearly, quarterly, or day-to-day basis (Hashmi and Guvenli, 1992). However it can be argued that risk assessment should be conducted continuously (Risk Management Standard, 2002; Minor, 2003; Fitzpatrick, 2005; Tsai and Su, 2005). The rationale for such continuous assessment, according to Hood (2001), Tsai and Su (2005) and Brink (2004), is the changing business environment, which constantly influences investment opportunities. Like Brink (2004), Tsai and Su (2005) suggested that risks within countries can change on a daily basis and can impact negatively on a foreign operation's profitability. A continuous assessment, therefore, leads to appropriate actions that improve a firm's profitability.

A review of the empirical literature in the context of Canadian firms (Rice and Mahmoud, 1990), UK firms (Wyper, 1995), Dutch firms (Pahud De Mortanges and Allers, 1996), Swedish firms (Kettis, 2004) and foreign firms operating in Cost Rica (Oetzel, 2005), suggests that political risk assessment (PRA) is 'crisis-oriented' rather than continuous. There would seem to have been little research explaining this phenomenon; thus, an explanatory effort was needed. One study

which did explain the frequency of PRA within a firm characteristics framework is that of Hashmi and Guvenli (1992) who found that firms with 'high' international involvement (those generating more than 20.0 per cent of sales from foreign operations) were more likely to conduct the process on a yearly or quarterly basis.

## **RESEARCH METHODOLOGY**

This research was conducted in the context of Jordanian international firms rather than other nationalities. The rationale for delimiting the research to Jordanian international firms was twofold. Firstly, the target respondents of this research were top managers who are usually located at headquarters; to this end, reaching such respondents was affordable in the context of Jordan. Including other nationalities, as suggested by Oetzel (2005), can raise difficulties related to the time and expense needed to forward or send questionnaires to such managers in their home countries. These difficulties are increased because most non-Jordanian firms operating in Jordan are branches of firms located in different countries. For example, the five foreign banks operating in Jordan are branches of foreign banks: the HSBC Bank Middle East, Egyptian Arab Land Bank, Standard Chartered Grindlays Bank Ltd, Rafidain Bank and Citibank. As a consequence, such managers cannot respond on behalf of their parent firms. Secondly, and most importantly, the sensitive nature of political risk, as suggested by Hood and Nawaz (2004), might inhibit responses; so, the risk of non cooperation by non-Jordanian respondents was thought to be high. This issue, as noted by Welch *et al.* (2002), is an important consideration in conducting international business research. Indeed, the pilot studies undertaken in this research revealed that many foreign firms operating in Jordan were not able to release any information for scholars about their firms.

## **SURVEY STRATEGY**

In line with the aim of the paper, a survey strategy was chosen. This strategy is needed in order to describe and verify the relationship between the practices of PRA and firm-specific characteristics. Moreover, the strategy falls in line with many earlier studies on the subject (e.g. Blank *et al.*, 1980; Kobrin, 1982; Rice and Mahmoud, 1990; Stapenhurst, 1992a; Stapenhurst, 1992b; Pahud De Mortanges and Allers, 1996; Yazid, 2001; Hood and Nawaz, 2004).

Using a survey strategy for this research can yield other advantages: a) the data collected from the survey are standardised allowing easy comparison and statistical analysis (Saunders *et al.*, 2003); b) the survey allows for the collection of a certain amount of data from a sizable population in a highly economical way (Leedy and Ormrod, 2001); c) the survey allows a significant degree of control over the research process and is easy to undertake (Sekaran, 2003) and d) using a survey, a sample from a large population is chosen; as long as the sample is representative of the whole population, the findings from the survey can be generalised in order to understand more about the population.

The descriptive part of this research, in compliance with the recommendations of Robson (2002) and Saunders *et al.* (2003), was used as a means to an end rather than an end in itself. This use, in turn, can be used to explain the correlations between variables. Furthermore, a cross-sectional study was chosen for this research for three reasons: a) it is a common method of descriptive research in business studies (Churchill, 2001) because descriptive research is aimed at providing a detailed picture of a particular issue; b) it is the most common method of survey research (Churchill, 2001), because a survey strategy requires collecting data from a sizable population in a particular time frame (Leedy and Ormrod, 2001) and c) it is appropriate for most research projects undertaken for academic courses because such research projects are time constrained (Saunders *et al.*, 2003).

## **DATA COLLECTION METHODS**

A multi-method approach was followed in this study for two reasons. Firstly, different methods can be used for different purposes in a study (Hair *et al.*, 2003). Describing the practices of PRA requires a questionnaire, while understanding the practices requires flexible personal interaction with a limited number of respondents. Secondly, the choice of multi-methods for data collection enables triangulation to take place (Leedy and Ormrod, 2001).

Consequently, both questionnaires and interviews were used. The questionnaire was delivered to Jordanian international firms. The rationale for such a 100 per cent sample (also known as a census) is to ensure that the sample is representative and not biased. In order to obtain a more homogenous sample of these firms, only the headquarters are included, eliminating subsidiaries, divisions and plants. In the context of Jordan, all firms listed on the Amman Stock Exchange have two official positions: chairperson of the Board of Directors and general manager. The questionnaires were specifically sent to general managers. Locating the person who is responsible for assessing political risk is not an easy task since, according to Hood and Nawaz (2004), the risk manager might not be the person who is actually involved in political risk management. In addition, there might well be multiple centres of political risk assessment (PRA) in a single firm or the responsibility to assess political risk may be assigned informally to some personnel. Moreover, general managers are, according to Kwon and Konopa (1993), Pahud De Mortanges and Allers (1996) and Oetzel (2005), more capable of accurately commenting on their firms' approaches to PRA than chairpersons.

A total of forty-four out of seventy-six questionnaires were returned - a total response rate of 57.8 per cent. Such a positive response rate may be considered to be an indication of management interest in the topic of the research. However, a total of thirty respondents did not respond for the following reasons: a) work pressure (36.67 %); b) a firm's policy which deters participation in any academic research (26.67 %); c) apology with no reasons (30.00 %); d) a desire to participate but did not return the questionnaires (6.66 %).



To test whether the sample is representative and not biased, the Chi-square test was used. The output of Chi-square statistics indicated no statistically significant difference between respondents and non-respondents with respect to industry category ( $X^2 = 2.552$ ,  $p = 0.279$ , 2-sided) or with respect to a firm's total assets ( $X^2 = 5.583$ ,  $p = 0.061$ , 2-sided). The sample, thus, is representative of the population and the findings can be generalised to the entire population.

In addition to the survey, semi-structured interviews were used to explore in further detail and depth the findings from the questionnaire data. Ten firms were targeted for semi-structured interviews. A ten to fifteen firm sample size is in line with many political risk studies (e.g. Tsai and Su, 2005; Oetzel, 2005). The sample for interviews was drawn from the respondents to the questionnaires ( $N = 43$ ), rather than from the target population as a whole ( $N = 74$ ). This is because the firms that refused to respond to the questionnaire would probably not agree to extensive personal interviews.

A stratified sampling technique was used; ie the number of firms from each strata was proportionate to the size of a particular strata relative to the overall sample size. The appropriate respondent was selected based on responses from the initial questionnaire.

Using a semi-structured interview method, the research questions covered varied from interview to interview. Some questions were included in particular interviews in order to account for the specific organisational background of respondents. The order of the questions also varied depending on the flow of the conversation. Additional questions were asked when it was felt that additional issues could be explored. Furthermore, every targeted respondent had asked interviewees to cooperate with the researchers. The letter was also accompanied by a list of interview questions. Every interviewee was also asked whether or not the interview could be tape-recorded. The interviewees who gave permission to tape-record were given the option to pause the recorder if they wanted to say anything off the record. If interviewees did not give permission for a tape-recording; the interview data was recorded by note-taking. Most of the interviews were held at the interviewees' offices for their convenience and required about one hour (mean 68 minutes). An attempt was made by the interviewer to ask the questions in the same tone and style and interviewees were given freedom to express their views and interpretations of the questions.

## **DATA ANALYSIS STATISTICS**

Non-parametric statistics were used for the following reasons: a) the outputs of the Normal Quantiles-Quantiles chart (Q-Q chart plots), which test of many of the research variables indicated that the distribution of questions was significantly different from a normal distribution (i.e. the distribution is non-normal); b) non-parametric tests are most appropriate when dealing with 'small' sample size (Leedy and Ormrod, 2001); c) non-parametric tests are appropriate when dealing with ordinal scales because the magnitudes or differences between the rating categories are not known; even the distances between the scale categories are theoretically supposed to be

equal (Siegel and Castellan, 1988).

## **DISCUSSION OF THE FINDINGS**

Seventy-six Jordanian firms met the conditions for being defined as international. The main database used for identifying international firms was the Jordanian Shareholding Companies' Guide / Amman Stock Exchange for the year 2003.[1] This guide provides an official database of most Jordanian registered shareholding firms with regard to a firm's total assets, number of employees, industry categories and its ownership.

Firms were grouped into three size categories using the tri-chotomous technique. Small firms, as presented in Table 3, included firms with total assets of below US \$ 17.3 million and fewer than 186 employees, while medium-sized firms had assets of US \$ million 17.4 to 45.6 and from 187 to 312 employees.

Variables of size	Size categories		
	Small	Medium	Large
Total assets US \$ (million)	? 17.3	17.4 - 45.6	? 45.7
Number of employees	? 186	187 - 312	? 313

**Table 2:** Classification of a firm's size by total assets and number of employees

Allocating the responding firms to a firm's total assets in US \$ million classification revealed that fourteen out of forty-three firms (32.6 %) were small, fifteen firms (34.8 %) were medium-sized and fourteen firms (32.6 %) were large. Allocating the responding firms by number of employees reveals that nine out of forty-three firms (20.9 %) were small, fifteen firms (34.9 %) were medium-sized and nineteen firms (44.2 %) were large.

The firms were categorised with regard to the three internationalisation characteristics shown in Table 3: number of years in international business, per centage of international revenues and number of operating countries. Allocating the responding firms to a firm's number of years in international business reveals that fifteen out of forty-three firms (34.9 %) were low-internationalised, seventeen firms (39.5 %) were medium-internationalised and eleven firms (25.6 %) were high-internationalised. Allocating the responding firms according to a firm's per centage of international revenue revealed that seventeen out of forty-three firms (39.5 %) were low-internationalised, ten firms (23.3 %) were medium-internationalised and sixteen firms (37.2 %) were high-internationalised. Allocating the responding firms according to a firm's number of operating countries revealed that twenty out of forty-three firms (46.5 %) were low-internationalised, nine firms (20.9 %) were medium-internationalised and fourteen firms (32.6 %) were high-internationalised and operated in more than eleven countries.

Variables of internationalisation	Degree of internationalisation		
	Low	Medium	High
Number of years in international business (YEARS)	? 10	11 - 25	? 26
Revenue generated by international business activities (REVENUE) %	? 10.0 %	11.0 % - 25.0 %	? 26.0 %
Number of countries in which a firm operates (COUNTRY)	? 5	6 - 10	? 11

**Table 3: Classification of Jordanian firms by degree of internationalisation.**

The firms were also classified into four main categories as listed under both the Amman Stock Exchange and the Ministry of Industry and Commerce of Jordan. These categories were: a) industrial (e.g. chemical, textile, steel, leather, cosmetics, fertilizers, mineral products, pharmaceutical); b) banks (e.g. commercial, investment); c) insurance (e.g. life, motor, marine); d)

service (e.g. telecommunications, transportation, hotel, marketing, educational, investment). Due to the small number of firms responding to each of these sub-categories, the decision was made to categorise firms into the aforementioned four main categories. Furthermore, since the responding firms from the insurance category numbered only three, the decision was made to combine insurance firms with the service category. Allocating the responding firms according to industry category classification revealed that twenty out of forty-three firms (46.5 %) were industrial, twelve firms (27.9 %) were banks and eleven firms (25.6 %) were service.

Finally, the firms were categorised according to their ownership. Thirty-one out of forty-three firms (72.1 %) were owned by private individuals or other firms and twelve firms (27.9 %) were owned by the government.

## MOTIVATIONS FOR POLITICAL RISK ASSESSMENT

Respondents to the questionnaires were presented with a literature-derived demands list and required to tick the occasion(s) on which they conducted political risk assessment (PRA). The findings are presented in Table 4. For 73.0 per cent of respondents the assessment was most frequently conducted in connection with proposals for investment, for 67.6 per cent when problems in the targeted country occurred, for 51.4 per cent when conducting strategic planning and for 29.7 per cent when granting credit to foreign customers.

Type of triggers	Valid N = 37 firms a	
	N	%
Initial investment or reinvestment	27	73.0
Certain problem occurs	25	67.6
Conducting strategic planning	19	51.4
Granting credit to foreign customers	11	29.7
Other triggers	N.A	N.A

**Table 4:** Triggers of conducting the assessment

a: Details add up to more than (N = 37) or 100 per cent because of multiple responses.

- Analysis of questionnaire data.

The outputs of Chi-square for a 3x2 table and Fisher's exact probability for a 2x2 table show no significant correlation between the triggers and firm-specific characteristics.

Triggers	ASSETS	YEARS
Investment	0.987	
	(0.610)	
	N	%
General manager	10	66.7
Chairperson	7	46.6
Planning manager	5	33.4

Financial manager	3	20.0	
Credit / loans manager	2	13.4	
Investment manager	1	6.7	

**Table 6: Reporting the results of risk assessment**

a: Details add to more than N = 15 or 100 per cent because of duplicate responses.

- Analysis of questionnaire data.

Communication patterns within the firm were identified in terms of the channels of communication between risk assessors and decision-makers. The communication between risk assessors and management, however, was often unidirectional. When risk assessors were asked how the results of assessments were used in decision-making, two responses reflected uncertainty. Therefore, downward communication from management at the decision-making level to risk assessors was limited. Risk assessors simply “do not know how the reports were used in decision-making” (Respondent C). As a consequence, it is appropriate to suggest that risk assessors were also unsure of the precise needs of decision-makers for risk assessment, unless assessors received a direct request. Consequently, if risk assessors did not know what pieces of information to include in their reports, risk assessment reports were likely to include irrelevant information.

## FREQUENCY OF RISK ASSESSMENT

Respondents to the questionnaires were required to respond to the frequency with which political risk assessment (PRA) was conducted in their international business. Most firms in the sample, as shown in Table 7, assessed political risk at one point in time: 56.8 per cent of firms conducted the process ‘occasionally’ whenever firms felt the need to undertake an assessment; 16.2 per cent assessed risk on a daily basis; 13.5 per cent on a yearly basis; 13.5 per cent on a quarterly basis.

Valid N =	Frequency of assessment	
37		
	Never	Occasionally
		ally

- Occasionally |6.181  
(0.045) |4.238  
(0.120) |5.246  
(0.073) |9.263  
(0.010) |0.306  
(0.858) |1.000 | Yearly |5.340  
(0.142) |0.961  
(0.618) |5.220  
(0.074) |1.747  
(0.418) |2.568  
(0.277) |0.295 | Quarterly |2.994

(0.224) |0.961  
 (0.618) |2.164  
 (0.339) |1.747  
 (0.418) |4.123  
 (0.127) |0.797 | |Day-to-day |1.001  
 (0.606) |1.092  
 (0.579) |6.800  
 (0.033) |3.737  
 (0.154) |0.154

(0.926) |0.653 | |Table 8: Correlations between frequency of conducting the assessment and firm-specific characteristics

- Analysis of questionnaire data.

It is interesting that most firms in the sample had assessed political risk at one point in time. This finding is in contradiction to the finding of Kobrin (1982), who suggested that there was no overwhelming interest in assessing political risk within US firms at that time. A later study by Hashmi and Guvenli (1992) reported increased interest by US firms in such a process; all firms assessed political risk in the ‘recent past’. Growing interest in assessing political risk, according to Fitzpatrick (2005), has been attributed to the rapidly changing political environment, which has made the assessment a vital element of international business. Nonetheless, while 56.8 per cent of Jordanian firms conduct the process occasionally, only 16.2 per cent assess risk on a daily basis, 13.2 per cent on a yearly basis and another 13.2 per cent on a quarterly basis.

The interview data confirmed that of the questionnaires: occasional assessment, heading the list, is reported by seven interviewees, followed by routine assessment (e.g. yearly, quarterly) with only three mentions. The Jordanian finding accords with the findings reached in the context of Canadian firms (Rice and Mahmoud, 1990), US firms (Hashmi and Guvenli, 1992), UK firms (Wyper, 1995), Dutch firms (Pahud De Mortanges and Allers, 1996), Swedish firms (Kettis, 2004) and foreign firms operating in Costa Rica (Oetzel, 2005) where political risk assessment (PRA) was carried out mostly occasionally. Jordanian interviewees, however, were aware of the importance of assessing risk on a regular basis. As suggested by a risk manager of a bank, “*if the assessment is not conducted on a continuous basis, quick action may not be possible and new opportunities may be lost*” (Respondent H). This view is supported by the Risk Management Standard (2002) which suggested that firms should assess and manage risk continuously and address all risks surrounding the firm’s activities, past, present and, in particular, future. Wilkin (2001) and Kettis (2004) reiterated this suggestion, explaining that firms which assess risk on a continuous basis can identify those elements of political risk associated with foreign business operations, and so may find new opportunities.

The reactive approach seems to be common because assessment resources are limited and, therefore, are used sparingly. To illustrate further, the Cramer’s  $V$  test suggests that assessing risk occasionally is significantly related to a firm’s size in terms of total assets in US \$ million (Cramer’s  $V = 0.409, p < 0.05$ ). Small-sized firms are more likely to conduct PRA occasionally

than medium-sized firms and the latter firms are more likely to conduct the process occasionally than large-sized firms. Nonetheless, conducting the process on a 'day-to-day' basis is not significantly related to any firm-specific characteristics. This finding is in contrast with that reported by Hashmi and Guvenli (1992); firms with high international involvement (those generating more than 20.0 % of sales from foreign operations) had a regular assessment pattern (yearly, quarterly) compared with those firms with low international involvement.

The frequent reason for a reactive approach to assessment is that PRA is a "*time-consuming process*" (Respondents E and G). PRA requires allocating an appropriate person to conduct the process, collecting relevant data and analysing data to figure out the impact of potential political risks. The 'time-consuming' nature of the assessment process seems to hinder managers from conducting the process on a regular basis. As the financial manager of a service firm reported, "*suppose that a firm is confronted with an unexpected risky event in the interested country that requires immediate action, if I wait for the assessment to be completed, the event takes place*" (Respondent E). In addition, the 'time-consuming' nature of the assessment process implies that the assessment report may be out-dated by the time it is completed. Instead of conducting the process in-house, which is time consuming, the firm may obtain ready-made PRA from international organisations such as the Overseas Private Investment Corporation and the Multinational Investment Guarantee Agency. Such ready-made assessments, nonetheless, cover only the general political conditions in a country with the result that it is not possible to use such assessments for different industries. In addition, such assessments are expensive and not all firms can afford to purchase them.

## CONCLUSIONS AND IMPLICATIONS

Jordanian firms have shown a growing interest in assessing political risk since most firms have assessed political risk at some point in time. Nonetheless, more than half of the respondents conduct the process *on demand*; whenever managers feel the necessity for PRA. Small-sized firms are more likely to conduct the assessment occasionally than medium-sized firms and the latter firms are more likely to conduct the process occasionally than large-sized firms. Although on demand assessment is relevant to a firm's operations, such assessment perpetuates the reactive, rather than proactive, approach to risk assessment. This reactive approach to risk assessment seems to be common because assessment resources are limited and because of the time consuming nature of the process. As firms tend to carry out the assessment process occasionally, the focus of a 'good' risk management, which can assess and manage risk up to date, has not been realised. On the one hand, assessing risk on a continuous basis can identify those elements of political risk associated with foreign business operations; so a firm may find new opportunities. On the other hand, if the assessment is not conducted on a continuous basis, quick action may not be possible and new opportunities may be lost.

Risk assessment is most frequently triggered by proposals for investment. The other frequent triggers, in descending order, are when a certain problem in the interested country occurs, when

involved in strategic planning and when granting credits to foreign customers. However, the triggers for assessment are not significantly related to any firm-specific characteristics. In line with earlier literature, the 'formal' integration of PRA into the investment decision-making process is the exception rather than the rule. The assessment within firms, moreover, tends to serve as an input into decision-makers' subjective impressions of political variables and their likely impact upon operations. These subjective impressions, in turn, serve as a background against which the decision is taken.

The results of risk assessment need to be reported to many levels within a firm since different levels need different information from the risk assessors. The majority of respondents report to top management. Downward communication from management at the decision-making level to risk assessors, meanwhile, is limited. Risk assessors, as a consequence, are also unsure of the precise needs of decision-makers for risk assessment, unless they receive direct requests. Consequently, if risk assessors do not know what piece of information to include in their reports, the risk assessment reports are likely to include irrelevant information. This suggestion also implies that the risk assessment process may have received no apparent top management support, which is contrary to one of the main recommendations of the Risk Management Standard (2002). The communication gap, however, can be minimised. In this context, the Risk Management Standard (2002), suggests that the management of a firm needs to translate the firm's strategy into operational objectives and to assign responsibility throughout the firm, with each manager and employee responsible for the management of risk as part of their job description.

Although the results of this research fill some major gaps in the previous literature, they are subject to a number of limitations. The first limitation is the small number of firms in the sub-industries. The sub-industries, therefore, were combined into three main industry categories representing industrial, banking and service. Knowing that firms in different industries have different risk profiles, which may lead to different managerial concerns about risk and different risk practices, has limited the research in that the industry categories are not able to explain the managerial practices. The second limitation is that the data obtained from the questionnaires suggested the use of non-parametric statistics. These statistics, according to Field (2003), are seen as 'less powerful' than their parametric counterparts in that, if there is a significant effect in data, then a parametric test is more likely to detect it than a non-parametric one. Nonetheless, employing non-parametric statistics with valid assumptions is methodologically 'safer' than employing 'robust' statistics with invalid or violated assumptions (Hollander and Wolfe, 1999).

On the whole, as suggested by Hood and Nawaz (2004) and Kettis (2004), there does not appear to have been 'much' research carried out on political risk. Examining the state-of-the-art in political risk is, therefore, important in order to determine where the field stands today and the trends which are emerging. The current research is in line with this requirement. Although this research has contributed to the understanding of the managerial practices of PRA in developing countries, the research has identified also a need for further research.



The variation in used terminology and research methods and the different times at which previous political risk studies have been conducted have made it difficult to make cross-national comparisons. Ideally, then, the cross-national research of political risk would be conducted in several countries at the same time using the same research methodology. In conducting such a study, a multi-method of data collection could be used. This is because validity is raised as a quality data issue with regard to the use of quantitative methods, while reliability and generalisability are raised as quality data issues with regard to the use of either quantitative or qualitative methods. The 'rigid' division between the two approaches to research, as suggested by Saunders *et al.* (2003), is misleading; the use of multi-method (i.e. questionnaires and interviews) is based on the assumption that qualitative and quantitative methods are complementary rather than competitive. Different methods, therefore, can be used for different purposes in a study which also enables triangulation to take place. In the field of political risk, describing the managerial practices of political risk assessment requires a questionnaire method; understanding these practices requires flexible personal interaction with a limited number of respondents.

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[1] The Jordanian Shareholding Companies' Guide for the year 2003 was the latest available version at the time of the classification of firms.