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RESEARCH ARTICLE

Political risk assessment by multinational corporations in African markets: A Nigerian perspective

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Political risk assessment (PRA) is one of the determinants of foreign direct investment (FDI) and the competitiveness of multinational corporations (MNCs), yet little is known about its use in African markets. This study critically investigates the PRA techniques used by MNCs in Nigeria and their applicability. It uses a multimethod approach to analyze data collected from MNCs and the data set of the International Country Risk Guide (ICRG) PRA annual rating for Nigeria from 2011 to 2015. The findings reveal that most firms use qualitative, rather than quantitative, PRA techniques. Regional variations in the outcome of PRA within Nigeria could also contribute to the low use of quantitative techniques. This article identifies that firms are prepared to invest in Nigeria, in spite of high political risk, due to its economic and financial attractiveness. This article's findings offer some implications for practice with some suggestions on how it could influence firms' internationalization and their conduct of PRA.

KEYWORDS

Africa, foreign direct investment, internationalization, multinational corporations, Nigeria, political risk assessment

1 | INTRODUCTION

FDI is generally increasing year on year in sub-Saharan Africa, although a 7% decline in inflows was reported in 2015 (United Nations Conference on Trade and Development [UNCTAD], 2016). The quest for growth and competition among multinational corporations (MNCs) has increased the rate of foreign direct investment (FDI) into African markets since the turn of the century (World Bank, 2014, p. 5). It is also influencing the internationalization of African firms and changing the dynamics of international business within the continent (UNCTAD, 2014, 2016).

Most studies of political risk assessment (PRA) have been in an FDI context, due to its having more consequences for political risk than other forms of international investment (Bekaert, Harvey, Lundblad, & Siegel, 2014; Filipe, Ferreira, Coelho, & Moura, 2012; World Bank, 2014). The importance of PRA for MNCs operating in African markets has increased significantly with the growing rate of FDI (Baek & Qian, 2011; Jiménez, Luis-Rico, & Benito-Osorio, 2014). PRA is used for managing political risks and the decision-making processes associated with the internationalization of firms

and is one of the key influences on FDI into African markets (World Bank, 2014).

The assessment of how MNCs can operate successfully and profitably in African markets in spite of the presence of political risk has continued to gain attention (Cleeve, 2012; Kerner & Lawrence, 2014; Khan & Akbar, 2013). Political risk is any changes in a political environment due to government decisions or an event that decreases the possibility of a foreign investor's achieving its business objectives in another political environment (Howell, 2014). However, most African markets have more unstable political environments, with more frequent changes in government policy, than developed countries (Baek & Qian, 2011).

Previous studies have shown that the consequences of political risk differ from one African market to another and have influenced the types of international strategy that firms adopt (Baldacci, Gupta, & Mati, 2011). This means that each African market has specific political risk that differentiates one from another, therefore creating different scenarios for MNCs to assess (Bekaert et al., 2014; Quer, Claver, & Rienda, 2012). Sub-Saharan Africa is regarded as high risk, but there are significant intercountry variations in risk perception versus actual

risk. Likewise, MNCs have specific characteristics that cause them to 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 to incorporate all the specific political risk factors.

It is important to use methodologies by which a 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 that 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, & Kruys, 2008). Assessing political risk is relevant so that the type of investment, entry strategy and ownership structure can be determined during the internationalization of MNCs within African markets.

However, until the past decade, studies on political risk have received relatively little attention within the context of African markets, with only a few empirical studies conducted compared to other developed countries (Al-Khattab, Rabbo, Awwad, Anchor, & Davies, 2011). Most reports on African markets have been based on a single event in one country. Dichotomizing African markets has therefore made it imperative to investigate whether 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 was one of the key criticisms of risk analysis prior to the global financial risk in 2007. It is against the backdrop of these challenges that this article intends to investigate the PRA techniques used by MNCs operating in African markets.

The objectives of this article are to investigate the PRA techniques used in Nigeria in order to find out if there is any significant correlation between the different PRA methodologies used and the outcome of their assessments. This study empirically uses a multi-method approach to analyze data collected through statistical methods and content analysis from MNCs in Nigeria. The data set of the International Country Risk Guide (ICRG) PRA annual rating for Nigeria within the period 2011 to 2015 is also analyzed. The article is structured into six parts: Section 1 is the introduction; section 2 is a theoretical and literature review about political risk in Nigeria including internationalization of MNCs; section 3 is about PRA methodologies; section 4 is about the study methodology adopted for the study; section 5 discusses the findings; and section 6 is about the study's contributions, followed by a conclusion.

2 | THEORETICAL REVIEW

Political risk in international business emerged as a distinct field of study without an all-encompassing construct setting forth the underlying principles that show how MNCs respond to host countries' policies (Grosse & Behrman, 1992; Robock, 1971). Some theories have explained the behaviors of MNCs in different political environments, but none has shown their cross-national behavior in this context.

Government institutions are responsible for making policies that constitute political risk in their political environment for MNCs. Political risks could be mostly institutional in nature, even though some emerge due to inherent factors in political environments like some other risks. Given the fact that firms make decisions when responding to different institutional environments, institutional theory becomes useful as a way of analyzing the moves from one country to another (Meyer, 2008; Peng, Wang, & Jiang, 2008; Quer et al., 2012). Some studies have tried to correlate political risk to institutional theory by explaining how it influences firms' decisions during internationalization (Dunning, 1980; Osabutey & Okoro, 2015; Quer et al., 2012). There is a theoretical concept that underscores its legitimacy, rational myths, and isomorphism, which emphasizes resilient facets of social structure known as neo-institutional theory. The legitimacy aspect of neo-institutional theory will be considered in the context of this article since most firms habitually will want to achieve legitimacy in their host country (Meyer, 2008). The legitimacy viewpoint of neo-institutional theory could be used to explain, as firms move from either a developed economy to an emerging one or vice versa, how 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 there are weaknesses in institutions or if there is 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 behavior and choice of location of MNCs (Henisz & Swaminathan, 2008; Meyer, 2008; Peng et al., 2008; Quer et al., 2012). The regulations set by these government institutions are parameters that can determine the differences between a non-profitable investment and a profitable investment. Literature about political risk and the internationalization of MNCs in Nigeria provides insights into some of the attributes of MNCs that differentiate one from another, including how they perceive political risk and how they conduct PRA.

2.1 | Political risk in Nigeria

There is a limited, but rapidly growing, literature regarding political risk in Nigeria. Since the amalgamation of the country in 1914, Nigeria has undergone a series of transformations that have shaped and reformed its political landscape. After the country's independence in 1960, a number of political and economic reforms were introduced by both military and democratic governments that had consequences for MNCs (Umoren, 2001). Major political risk started to emerge in the country after 1966, with the staging of a military coup, and then a civil war took place from 1967 to 1970. Beginning in 1972, the government introduced a succession of policies that led to the nationalization of a number of MNCs, coupled with a number of military interventions in government, as well as other political and religious crises (Orugbani, 2005). An increasing wave of terrorism, a high level of corruption, a high rate of unemployment, inadequate infrastructure, a poor legal system, and the unstable situation in the oil-

rich Niger Delta region have been features of the country more recently (Bischoff, 2010; Wafure & Nurudeen, 2010). As a consequence, the data set of the ICRG PRA annual rating conducted for Nigeria within the period from 2011 to 2015 reported a very high political risk score (Political Risk Services [PRS] Group, 2015).

According to the Nigerian National Bureau of Statistics (2012, p. 11), the percentage of Nigerians living in poverty 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% of their revenue due to poor infrastructure, crime, corruption, and insecurity. It also reported that 80% of firms offer bribes to government officials for one reason or another (Iarossi & Clarke, 2011).

2.2 | Internationalization of MNCs in Nigeria

MNCs were 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), the Swiss Union Trading Company (UTC), Societe Commercial de l'Quest African (CFAO), Barclays Bank, and others, have invested in Nigeria. However, in the past, it was only the government that was involved in the internationalization 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 change when the Nigerian government promulgated an Indigenisation Policy Act, which aimed to promote local participation in the economy (Ake, 1985b). It led to the nationalization of some foreign firms in the banking and oil sectors, with the federal government acquiring 40 to 60% 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 policy reform by the government, which offered more incentives to encourage more foreign investors into the country. Some MNCs were of African origin, mostly from South Africa, Morocco, and Nigeria. These African MNCs started internationalizing within countries in the region. There was also a significant increase in the number of sub-Saharan African MNCs internationalizing within the continent (The Africa Report, 2014). A number of variables are used as criteria to measure a firm's degree of internationalization, 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 their businesses and entry modes that do not necessarily reflect their degree of internationalization. MNCs' decisions to internationalize 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 of how it can be mitigated (Bekaert et al., 2014). The attributes of MNCs, such as their degree of internationalization, structure, and behaviors lead to different risk perceptions, including about political risk.

As a firm's degree of internationalization increases, its exposure to political risk increases at the same time as its perception of political risk may reduce (Al-Khattab et al., 2011). It means that most firms with a high level of internationalization will tend to operate in riskier markets. However, firms have various institutional arrangements with different leverage, which enable them to operate even in the presence of some types of political risk and which means that the consequences will have less impact than might be expected. 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 to determine the extent of political risk using different methods along a spectrum of both qualitative and quantitative methods with a mixture of subjective, as well as objective, approaches. However, some limitations have been noted in the existing quantitative methods developed for PRA.

3 | POLITICAL RISK ASSESSMENT METHODOLOGIES

3.1 | Political risk assessment techniques

Studies have shown that there are different methodologies employed by 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, Anchor, & Davies, 2008; Brink, 2004; Howell, 2014; Rummel & Heenan, 1978). Brink (2004) and Kettis (2004) suggest that the different methodologies are a mixture of subjective and objective approaches that require either a qualitative or quantitative method. While the former method relies on individual or collective judgment, the latter is scientific in its approach and involves multivariate analysis or quantitative modeling. Kobrin (1982) proposed that different methodologies should be distinguished by their degree of systematization, which involves explicit assessment and implicit assessment that is intricate to replicate and entails mental processes. This suggests that there is a need for criteria to be used to determine if either a qualitative or quantitative method is appropriate to be applied for an assessment.

The use of quantitative methods by multivariate analysis involves analytical procedures that are based on statistical data or mathematical applications and are analyzed theoretically (Al-Khattab et al., 2008; Ting, 1988). The "objective" nature of a quantitative approach decreases bias and subjectivity compared to a qualitative approach, which involves techniques that rely on individual or collective judgment (Pahud de Mortanges & Allers, 1996). Brink (2004), though recognizing this limitation, proposed that measuring political risk to a large extent necessitates subjectivity. 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 than quantitative approaches.

It is for these reasons that there are more studies conducted using techniques involving qualitative approaches than quantitative

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.	Judgment and Intuition of Managers	Proficiency of managers	Knowledge and experience	Bias and subjectivity
3.	Expert Opinion	Consultants from the area or country	Multiple sources of information	Expert dependent
4.	Standardized Checklist	Systematically evaluate the items on the list	A more structured approach	Future events not taken into consideration
5.	Scenario Development	Assess the implications of possible scenario	Flexibility	Relies on prediction

approaches (Al-Khattab et al., 2008; Pahud de Mortanges & Allers, 1996). Pahud de Mortanges and Allers (1996), Rice & Mahmoud (1990), and Al-Khattab et al. (2008) identified five qualitative techniques: Delphi Technique, Judgment and Intuition of Managers, Expert Opinion, Standardized Checklist, and Scenario Development. The application of each of these types of assessment techniques differs, as do their advantage(s) and limitation(s) (Table 1).

3.2 | Political risk assessment ratings/models

Rating organizations use mostly quantitative, rather than qualitative, methods to conduct PRA. This involves using a scoring guideline with a weighted applicable valued risk variable through mathematical calculation to produce these generic models and rating methodologies to determine the probability of political risk (Brink, 2004; Nel, 2007). 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) that are political in nature and that can result in a 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 may transpire. The frameworks develop a list of the variables of political risk and attach a “measure of loss” index to represent a loss. Most of the indices used are only estimates; therefore, they cannot be generalized. These rating methodologies and models utilize different statistical approaches using quantitative methods, with some using multiple regression and discriminant analyses (Howell, 2014). The eight political risk ratings that are reviewed briefly (Table 2) are the

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 SJ Rundt and Associates Inc. However, in this study, BERI, ICRG, EIU and BM, which have overlapping political risk variables, will be explored in the context of the Nigerian market.

Table 2 summarizes the features that differentiate the eight highlighted rating methodologies and models. This shows the differences that limit their applicability. It is in this context that Brink (2004, p. 47) states that 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.” 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 assessment. Therefore, ratings have some limitations that negate their potential to adequately produce a result on the assessment of the investment climate in an African market. Some of the limitations observed in the rating methodologies and models are as follows:

1. The impossibility of including every risk variable that could affect the profitability of foreign investment (Brink, 2004).
2. The inapplicability of applying it to a specific multinational firm in a specific country or part of it to a specific project.
3. The inability of determining the type of losses that can affect a specific firm, due to a number of differences among firms (Howell & Chaddick, 1994).
4. The differences in their design and approvals in almost every case; the operationalization and rating or measurement of the factors lack transparency (Brink, 2004).

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	5-point Likert scale	Daily electronically
EIU	Mostly credit	100 +	22%	Yes	Letter grade	4 per annum
Euro Money	Mostly credit	180	25%	No	Letter grade	—
ICRG	Political risk	140	50%	Yes	Very low to very high	Monthly
PRS	Political risk	106	Yes	Yes	Letter grade	Monthly update
BM	Political risk	—	Yes	Yes	Percentage	—
SJ Rundt	Mostly risk	—	33%	No	1 (best) to 10 (worst)	—

Sources: Howell (2001) and Brink (2004).

TABLE 3 Reliability statistics

Cronbach's alpha	Alpha based on standardized items	Number of items	Number of cases
.86	.953	117	74

- The contentious nature of grading systems and the difficulty of interpreting most of the rating models and methodologies (Brink, 2004).
- The credibility of the data used by 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. There are parameters to be considered in the use of any methodology, but a check of the validity and reliability of the outcome obtained is important for accomplishing a firm-specific objective. Moreover, data obtained from African markets and used for PRA are rarely without inaccuracies and contradictions. Therefore, there is a need for a firm to consider its choice of an appropriate PRA methodology carefully before internationalizing to an African market.

4 | METHODOLOGY, DATA SET, AND ANALYSIS

A database of 247 firms from the Nigerian Stock Exchange in Lagos and the Corporate Affairs Commission in Abuja were used to identify MNCs operating in Nigeria. A pilot study helped to identify them further on a firm-by-firm basis. Only 150 firms were identified as being involved in international business. However, out of these 150 firms, 59 indicated that they had been nationalized by the then Nigerian government in the 1970s but had some form of foreign affiliations supporting their operations. Therefore, they were omitted from the sample. A total of 74 MNCs in Nigeria across different types of firms participated in an online survey, giving a participation rate of 81.3%. This study used both primary and secondary methods of data collection. This study empirically used a multimethod to analyze data collected through an online questionnaire using descriptive statistical techniques. A content analysis of the data set of the ICRG annual rating of PRA for Nigeria within the period 2011 to 2015 was also analyzed.

4.1 | Validity and reliability test

The validity and reliability of data were ensured through statistical techniques, questionnaire piloting, and vetting to certify the 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 would provide an accurate measurement. Values from .7 are considered adequate, but values up to .8 or more are preferable (Field, 2013) (Table 3).

4.2 | Characteristics of Nigerian MNCs

Table 4 displays eight classifications used by respondents to characterize MNCs in Nigeria into their type of industry, business, entry

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	
Number of Employees	Above N20 billion	43	58.1	
	Below 50	4	5.4	
	50–150	7	9.5	
	150–300	10	13.5	
Number of Years	Above 300	53	71.6	
	2–9	38	51.4	
	10–29	12	16.7	
Revenue Generated	30–90	24	32.9	
	Below N160 million	8	10.8	
	N160 million–N320 million	27	36.5	
	N320 million–N2 billion	16	21.6	
Number of Countries Operating	Above N2 billion	23	31.1	
	High	25	33.7	
	Medium	16	21.3	
Operating	Low	33	45.0	

TABLE 5 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
Standardized 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

mode, size, and degree of internationalization. Petroleum and gas represented 32.4% and manufacturing represented 36.5% of them. FDI had been the principal mode of internationalization for 64.9% of the firms. In assigning the respondent MNCs according to entry mode of internationalization, 56.8% of the firms did so by owning subsidiary. As measured by assets, 58.1% were mostly large-sized firms, while 71.6% were mostly large-size firms, as measured by employment. Their degree of internationalization was determined using variables such as revenue generated, number of countries operating, and number of years of operation to determine high, medium, and low levels of internationalization. As show in Table 4, 51.4% were low-internationalized firms, 52.7% were medium-internationalized firms from revenue generated, and 45.0% were low-internationalized firms in terms of the number of countries of operation.

Respondents indicated which technique(s) companies used and to what extent such a technique(s) is/are successful for analyzing political risks. The mean scores range from 3.15 to 1.69 and the mode scores range from 1 to 5 (where 1 = *not used*, 2 = *used with no success*, 3 = *used with moderate success*, 4 = *used with great success*, and 5 = *used with extreme success*). Judgment and intuition of manager and expert opinion techniques were used much more frequently than other techniques (Table 5).

Table 6 shows the rating model(s) that companies used, if any, and to what extent such a rating model(s) is/are successful in analyzing political risks in their firm. From the results (where 1 = *not used*, 2 = *used with no success*, 3 = *used with moderate success*, 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. This indicates that the respondents do not conduct PRA with these ratings/models for the most part.

Table 7 shows a data set derived from ICRG's annual PRA rating report conducted for Nigeria within the period from 2011 to 2015, which ranged from 42.5% to 46.0%. This risk rating indicates that a very high political risk rating 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 rating within the period. The best political risk rating of 46.0% was recorded in 2013. The net percentage change over this period is -0.8%, implying by this margin that no significant reduction was identified 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. Therefore, this means none of the political risk indicators showed any significant variation over the period that could be used to forecast or explain any changes of political risk in the context of Nigeria.

The content analysis focused on numbers and words in the context of their meaning from the ICRG's PRA interpretation. It was conducted in three phases: first, the ICRG PRA rating data set within the period 2011 to 2015 was prepared to identify and select relevant information, as shown in Table 7. Next was the organizing 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 indicate a very high level of political risk from 2011 to 2015. The annual percentage change in information selected was -0.8%, which means that the marginal change was negative and insignificant. The political risk variables selected for each year showed mostly minimal changes, with some being 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.

4.3 | Africa FDI inflows by regions

Due to the ever-present flux in her political situation, Nigeria has witnessed a variable inflow of FDI (Imoudu, 2012). According to the World Investment Report (UNCTAD, 2016, p. 37), "with overall FDI

TABLE 6 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 7 ICRG political risk assessment data set 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	Religion 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).

inflows declining by 7 percent in 2015, Africa's share of global FDI fell to 3.1 percent (down from 4.6 percent in 2014).¹⁰ This was mainly because of a decline in investment to Nigeria, which is Africa's largest economy, into which FDI flows fell from \$4.7 billion in 2014 to \$3.1 billion in 2015 (UNCTAD, 2016) (Table 8).

5 | DISCUSSION

The continuous flux in the political environment in Nigeria reported over the years makes analyzing insignificant changes in the PRA scores and the trend in FDI challenging. Therefore, it is problematic to determine to what extent to expect a strong correlation and over what sort of period and also 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—which vary from one part of the country to the other—can be used to explain how firms' behavior can be influenced. Jiménez et al. (2014) and Kesternich and Schnitzer (2010) pointed out that its degree of internationalization can influence the consequences of political risk for a firm. This means that the consequences of political risk will have less of an impact for a firm with a higher degree of internationalization than a firm with a lower degree of internationalization. A firm operating in a particular political environment can have some leverage that could 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 could be viewed as changing over time since the socioeconomic and political situation keeps altering with changes in the federal and state governments of Nigeria (Sottillotta, 2015).

It has been widely reported by previous studies in different countries that the use of qualitative techniques predominates in the

conduct of PRA (Al Khattab et al., 2011; Kettis, 2004; Pahud de Mortanges & Allers, 1996). Most companies use the Judgment and Intuition of Managers and Expert Opinion more than other types of techniques. This implies that most of the MNCs whose entry mode was owning subsidiary used these qualitative techniques. One possible explanation by Brink (2004) argues that measuring political risk necessitates subjectivity, which requires human judgment. 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. Most MNCs use qualitative approaches even though the former is subjective and susceptible to bias or inaccuracies (Brink, 2004).

Quantitative techniques are rarely used for conducting PRA in Nigeria. The use of quantitative techniques has been reported mostly in the context of developed countries than developing ones (Al Khattab et al., 2011; Kettis, 2004). Many of them have been developed to demonstrate the forecasting of losses due to political risk (Howell, 2014). The two reasons why quantitative techniques are

TABLE 8 Africa regions FDI inflows, 2010–2015 (millions of dollars)

Region ^a /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 ^b	6,099	8,915	7,127	5,608	4,694	3,064

Source: UNCTAD (2016).

^a The regional delineations and countries included in each of the regions is from official UNCTAD usage.

^b Nigeria is also included in the data for West Africa.

not widely used is that they require particular data that can theoretically lend themselves to statistical operations but may not be readily available (Brink, 2004). For this reason, applying such data would require a methodology that is designed to factor such an error.

Another major problem is in terms of the amenability of numerical data to quantification since some risk variables and indicators are not easily measurable, and they require rigorous standards of operationalization to be used. This causes most PRA models to build in exogenous factors that are susceptible to changes, therefore causing inconsistencies in these models (Howell, 2014). The interpretation of the results obtained after such an assessment requires particular skills. It is for this reason that the two main impediments facing most MNCs in assessing political risk in Africa are a lack and irrelevance of information and a lack of the skills required for risk assessment, which 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 whether 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 if 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. 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 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.

The data set of the ICRG PRA annual rating conducted for Nigeria within the period 2011 to 2015 was analyzed. 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 high political risk in a country to be compensated by low financial and economic risk. This implies that other factors can influence the consequences of political risk for 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 high 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, the World Bank (2013) and UNCTAD (2013) reports revealed that FDI in Nigeria 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 none of the risk indicators can be used to adequately explain any likely variations in forecasting political risk in Nigeria.

The differences in the level of political risk existing 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 are significant for a country and to what extent the changes reflect actual, rather than perceived, changes. The differences in attributes such as their degree of internationalization and behaviors to risk among MNCs could influence the extent to which changes in PRA are significant for a country. To Jiménez et al. (2014), a firm with a high level of internationalization could operate in riskier markets based on its knowledge of markets across a wider span, while to Al Khattab et al. (2008), this may lead to a greater institutionalization of 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.

5.1 | Contributions and implications for practice

PRA methods or techniques can be more or less useful depending on the accuracy of the data and the 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 study has shown that there are implications when the values of a country's macroeconomic data used in methodologies to conduct PRA are inaccurate. This would make MNCs less likely to use quantitative techniques for PRA. Firms would need to consider some of the data limitations when exploring quantitative techniques to improve the quality of the results they obtain in African markets. Therefore, there is the need to determine the validity of the data to be used for PRA.

This study has found that the presence of high political risk does not deter FDI if the financial and economic risks are low. This suggests why some firms invest in Nigeria, despite the presence of high political risk. This implies that firms should consider factors other than political risk when deciding whether to internationalize into a particular market.

The study identified regional variations in the outcome of PRA within Nigeria due to significant differences in the level of political risk indicators, which could contribute to a lower usage of quantitative techniques. Therefore, there is a need for specific in-country consideration for quantitative PRA approaches to be successfully applied.

This article demonstrated that the empirical investigation of the conduct of a country's PRA could be used 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 identified from the data on risk indicators that were used. All these factors depend on the quality of governance, the strength of regulatory institutions, and the policies of the government of the host country. 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 MNCs with regard to whether or not to internationalize to a specific market.

The findings of this study contribute to practice on how African 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 obtain for better understanding and operating in the political environment. This will, in turn, influence the type of strategies that MNCs adopt in terms of their mode of entry into some African markets.

6 | CONCLUSION

Political risk assessment is a key determinant of the foreign direct investment and competitiveness of MNCs, yet little is known about PRA in African markets. This study aimed to investigate the techniques used for PRA by MNCs in an African market. It empirically used a multimethods approach to analyze data collected through statistical methods and content analysis from MNCs in Nigeria. The data set of the International Country Risk Guide (ICRG) PRA annual rating for Nigeria within the period 2011 to 2015 was also analyzed.

Qualitative techniques for 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 rarely conduct PRA using 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 have been reported to be used more commonly than quantitative ones. The evidence from this study suggests likely causes why firms have refrained from the use of quantitative techniques in Nigeria. 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, there is the need to determine the validity of the data to be used for PRA before any technique is used.

The findings of the data set of the ICRG PRA annual rating conducted for Nigeria within the period 2011 to 2015 have shown that it is possible for very high political risk to be reported in a country and to be compensated by low financial and economic risk (PRS Group, 2015). This has suggested why some firms invest in African markets like Nigeria, despite the presence of 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 amenability of numerical data to quantification since some risk variables and indicators are not easily measurable and require rigorous standards of operationalization if used. This causes most models to build in exogenous factors that are susceptible to changes, therefore causing inconsistencies. It is evident in this study that these rating models have limitations that 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).

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 nature and the accuracy of the data and the results obtained in the host country. Therefore, firms' ability to conduct PRA is key to their successful management of political risk in host countries. Consequently, the successful management and mitigation of political risk are predicated on the effectiveness of PRA in African markets.

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