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**THE USE OF POLITICAL RISK ASSESSMENT  
TECHNIQUES IN JORDANIAN  
INTERNATIONAL FIRMS**

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**Summary:** The aim of this research was to describe and explain the use of techniques of political risk assessment (pra) in Jordanian international firms. The research identified the extensive use of qualitative pra techniques due to their flexibility, simplicity and low cost. Quantitative techniques, on the other hand, were used by only a minority of respondents. In any event, Jordanian international firms believe that official data is subject to censorship and is therefore not reliable. This undermines the efficiency of using highly sophisticated quantitative techniques.

**Keywords:** political risk, techniques, Jordan, international business.

## 1. Introduction

Political risk studies have focused mostly on developed countries. There has been much less effort directed to the subject in developing countries. Although Jordan is viewed as one of the major players in the economically and politically volatile Middle East region [Elkak 2003; Anchor, Davies, Al Khattab 2006], few studies of political risk have been undertaken. This paper reports on the first piece of research on political risk assessment (PRA) to be carried out in Jordan. This research is also one of the first attempts to gain an insight into the PRA techniques used by international firms based in developing countries.

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

Jordan has relatively few national resources, unlike some of its neighbours. This partly explains why, in spite of its relatively small population (6 million), it has suf-

ferred from high unemployment and extensive poverty in recent years [Knowles 2005]. Nevertheless the country has remained politically stable. The King acts as both Head of State and Executive Head of Government and there is a functioning, although weak, Parliament and also a weak civil society [*Jordan Economic...* 2000; Wiktorowicz 2002]. This benevolent/authoritarian system of rule has led to a certain degree of self censorship and doubts about the reliability of official statistics [*Middle East Monitor: East Med...* 2008]. The political risks which face Jordanian firms are the same as those which affect all firms in the Middle East region, especially the challenges arising from under-development, as well as terrorism. Jordan specific political risks tend to have their origins in economics rather than in politics per se and are lower than in many other Middle East countries [*Business Middle...* 2004].

The purpose of this research is to study the analysis of political risk within the Jordanian context and to describe and explain the use of techniques of political risk assessment (PRA) within the target population of Jordanian international firms (ie firms which are based in Jordan but which operate internationally). Comparison is made with earlier studies which also investigated firms from one nationality operating in different countries. This research also seeks to explain the reasons for divergent approaches to political risk assessment (PRA) by examining a number of firm-specific characteristics.

In line with this aim, a survey strategy was chosen in order to describe and verify the relationship between the assessment techniques used and certain firm-specific characteristics. This approach is in line with earlier studies (e.g. [Blank et al. 1980; Kobrin 1982; Rice, Mahmoud 1990; Stapenhurst 1992a; Stapenhurst 1992b; Pahud De Mortanges and Allers, 1996; Yazid 2001; Hood, Nawaz 2004]).

## 2. Literature review

### 2.1. Political risk and political risk assessment

There is little consensus in the literature on a suitable definition of political risk. Indeed the concept has proved troublesome for both academics and corporate decision makers. In part this is due to the fact that it is both susceptible to subjective interpretation and is also hard to quantify [Bach 2005]. It also arises from the fact that political risks are very diverse and can be difficult to categorise. Political risk is a term therefore which may carry very different connotations for different firms and indeed for different people within the same firm [Burmester 2000; Wilkin, Zonis 2000].

Nevertheless there are two main approaches which have been adopted to this question. The first of these defines political risk in terms of government interference with business operations. The word 'interference' is of course value laden and has a negative connotation [Kobrin 1981a]. More generally this approach can be considered to relate to a change in the 'rules of the game' for business arising from government action [Butler, Joaquin 1998]. However, the emphasis in this approach on government actions may be too narrow given the complexities associated with modern

international business activities. Indeed it may distract attention from other sources of political risk [Alon, Martin 1998; Hood, Nawaz 2004]. Even the assumption that government interference will have negative consequences is disputable [Shapiro 2003; Hood, Nawa, 2004; Stosberg 2005].

The second approach therefore considers that political risk relates to any political or societal events affecting a firm, particularly those operating in an international context [Kennedy 1988; Howell 2001; Zarkada-Fraser, Fraser 2002]. Howell's [2001, p. 4] definition is representative of this approach and will be used in this study: "the possibility that political decisions or political and societal events in a country will affect the business climate in such a way that investors will lose money or not make as much money as they expected when the investment was made".

Political risk has been considered as one of the most important risks for firms engaged in international business activities [Hood 2001; Howell 2001; Wilkin 2001; Minor 2003; Zerakli 2003; Brink 2004; Hood, Nawaz 2004; Kettis 2004; Nawaz, Hood 2005; Oetzel 2005; Stosberg 2005; Tsai, Su, 2005; Wade 2005]. Indeed Henisz and Zelner [2003] estimated that different types of political risk cost the largest international firms about US\$24 billion in lost revenue in 1998 alone. However, the overall cost of risk in international investment rarely includes the cost of political risks due to a lack of awareness of all the components of risk [Brink 2004].

Nevertheless, political risk can be managed [Burmester 2000; Hood, Nawaz 2004; Nawaz, Hood 2005]. There is a growing body of literature which suggests that political risk assessment (PRA) can help decision-makers avoid or decrease the chance of both property and income losses via the use of appropriate management tools and techniques [Burmester 2000; Wilkin 2001; Minor 2003; Shapiro 2003; Stosberg 2005; Fitzpatrick 2005]. Indeed, assessing political risk is important to international firms if they are not only to survive but also to prosper [Daniell 2000; Brink 2004; Kettis 2004]. In this context, political risk assessment (PRA) will be defined therefore as the process of analysing and evaluating political risk while undertaking (international) business activities.

Political risk assessment (PRA) first became a recognisable field of interest and practice during the early 1970s. The field gained in importance after the overthrow of the Shah of Iran in 1979 and the sudden transformation of Iran into an Islamic republic [Subramanian, Motwani, Ishak 1993]. International firms in Iran suffered both from the expropriation of assets (property loss) and from the imposition of Islamic economic concepts in the management of Iran's societal system (income loss). This sudden transformation of Iran, coupled with the oil price shock in the early 1970s [Brink 2004], as well as the Iran-Iraq war in the early 1980s [Kearns 1997], resulted in an increase in the attention paid to political risk in international business and in the development of political risk assessment techniques [Howell, Chaddick 1994]. Another significant development in the history of PRA was the end of the Cold War, when levels of nationalisation began a rapid decline and private investment increased significantly [Stosberg 2005]. Foreign direct investment also increased despite it being subject to host-government, host-society and interstate

risks [Kettis 2004]. Nevertheless, although the literature on political risk dates back nearly forty years [Robock 1971], the field of political risk assessment remains relatively immature and so its content and assessment techniques are ‘still work in progress’ [Brink 2004, p. 3].

## 2.2. Techniques of political risk assessment

A review of the PRA literature suggests that there are different means of classifying political risk assessment techniques. Waring and Glendon [2001] distinguish between heuristic and scientific approaches: the heuristic approach is qualitative and subjective, relying on individuals’ collective judgement, while the scientific approach includes quantitative modelling and requires formal training in mathematics<sup>1</sup>. Kennedy [1987], Brink [2004] and Kettis [2004] distinguish between qualitative and quantitative PRA techniques. On the other hand, Kobrin [1981b] classified PRA techniques in terms of their degree of systematisation; that is, the degree of formalisation of the assessment methodology. Kobrin [1981b, p. 256] stated that a ‘systematic methodology involves explicit’ assessment while implicit assessment ‘relies on the mental process’ of the assessor and is difficult to replicate.

So – called qualitative approaches can be divided into five main techniques: judgement and intuition of managers; scenario development; expert opinion; standardised checklist; Delphi technique [Rice, Mahmoud 1990; Subramanian, Motwani, Ishak 1993; Wyper 1995; Pahud de Mortanges, Allers 1996]. The first technique is ‘judgement and intuition of managers’. In this technique, a manager undertakes an assessment which relies intuitively on her or his competency. Local leaders, officials and business people are contacted in order to assess a political risk [Jain 1990]. The main drawback of such a technique, according to Kobrin [1981a], is that it is inherently subjective and biased in nature. Despite this drawback, previous empirical studies have shown the judgement of managers to be the most commonly used technique within Canadian firms [Rice, Mahmoud 1990] and Dutch firms [Pahud De Mortanges, Allers 1996] and the second most commonly used technique within US firms [Subramanian, Motwani, Ishak 1993]. Furthermore, the technique was considered to be the most successful by respondents in US [Hashmi, Baker 1988], Canadian [Rice, Mahmoud 1990] and Turkish studies [Demirbag, Gunes 2000].

The second qualitative technique is that of scenario development. According to Brink [2004], scenario development is qualitative in nature and is a well-known and widely accepted technique of identifying key political risks as well as opportunities. Scenario development relies on imagining the future rather than extrapolating from the past [Levinsohn 2002]. Flanagan and Norman [1993] stated that the technique is flexible; thus, increasing its popularity. Brink [2004], building on previous research, indicated that the major procedural steps in the preparation of scenarios include the central concerns of the users of the scenario: a) identifying the factors that are likely

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<sup>1</sup> For more information see Chicken [1996] and Brink [2004].

to have the most important influences on these central concerns in the future; b) analysing the important factors; c) assessing the importance and the uncertainty of these factors for the central concerns; d) selecting the scenario logics – the main theme or assumptions around which the scenarios are to be constructed; e) developing the scenarios, usually in the form of narratives that present a probable sequence of events; f) analysing the impact of the scenarios on the key concerns with which the process began; and g) analysing the implications for policy. According to Flanagan and Norman [1993], a common approach is to develop three different scenarios representing a pessimistic, an optimistic and a most likely outcome. An example of a scenario development would be a potential US attack on Iran and the scenario would be built according to the effect of such events on the international firms operating there. Scenario development was one of the most common techniques used within the Canadian, US, UK and Dutch firms reported on above.

The third technique is ‘expert opinion’. Unlike the judgement and intuition of managers, expert opinion (also known as *old hand*) relies on outside consultants, who are experts from a certain area or country, to assess political risk. The technique relies on valuable multiple sources of information such as advisory councils of foreign business people, banks, local government officials, academics, former politicians and journalists. Expert opinion was the first and the second most commonly used technique within US and Dutch firms, respectively [Subramanian, Motwani, Ishak 1993; Pahud De Mortanges, Allers 1996]. Furthermore the technique had the second highest “success” score within US, Canadian and Turkish firms [Hashmi, Baker 1988; Rice, Mahmoud 1990; Demirbag, Gunes 2000]<sup>2</sup>.

The fourth technique is the standardised checklist. This *structured* technique is used for both the identification and assessment of risk. The purpose of a checklist, as suggested by Pahud De Mortanges and Allers [1996], is for the manager to review systematically the items on the list. According to Ting [1988], a political risk checklist is an easy, quick and cheap technique but is stable and does not take future events into account. Therefore, such a technique or other simple ranking methods may be used for an initial screening of a potential host country. The use of a standardised checklist has been found to be common within Canadian firms and Dutch firms [Hashmi, Baker 1988; Pahud De Mortanges, Allers 1996].

The fifth qualitative technique is the Delphi technique. Gupta and Clarke [1996] defined Delphi as a qualitative technique that extracts, refines and draws upon the collective opinion and expertise of a panel of experts. From the perspective of political risk, Delphi can be used for predicting a future event or outcome in which a group of experts, is required to give their opinions on variables that affect the political environment of a country (e.g. political violence, war), initially independently and subsequently by consensus, in order to discard any extreme views [Tsai, Su

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<sup>2</sup> In the case of the US and Turkish studies, a five point scale was used; in the case of the Canadian study a three point scale was used. In all three cases managers were asked to rate the utility of the technique used.

2005]. The Delphi technique, is a particularly appropriate method when there is no historical data available [Simon 1985]. The results of Delphi techniques, depend on the quality of the experts chosen and their motivation to participate satisfactorily [Burmester 2000]. Nonetheless, the Delphi technique is criticised for long delays in attaining final results and the assessment may become outdated quite quickly [Simon 1985]. Furthermore, in some circumstances, subjective probabilities can be assigned to the possible future outcomes in order to arrive at a conclusion [Hussey 2005]. It is for these reasons that this technique is not used commonly within international firms.

The second category of political risk assessment techniques is so-called quantitative approaches. Quantitative techniques applied to PRA are any analytical procedures that are based on data that theoretically lend themselves to statistical or mathematical operations [Ting 1988]. According to Pahud De Mortanges and Allers [1996], such techniques were developed in order to reduce the bias or the 'subjectivity' of qualitative techniques. In view of this, Hood and Nawaz [2004, p. 10] argued that, while the identification of political risk may be a straightforward process, 'its measurement and management frequently tend to be more subjective than objective'. Similarly, Brink [2004, p. 2] stated that the measurement of political risk depends to a great extent on 'subjective human judgement which is in some instances a handicap for political risk assessment'.

Relatively few empirical political risk studies have investigated the use of particular quantitative techniques (e.g. [Subramanian, Motwani, Ishak 1993; Pahud De Mortanges, Allers 1996]. Other studies (e.g. [Hashmi, Baker 1988; Rice, Mahmoud 1990]) suggested one main technique as an example of a quantitative approach: namely regression analysis. Regression analysis is a statistical method used to determine the relationship between the dependent variable and one (simple regression analysis) or more (multiple regression analysis) independent variables. A common approach to predict a probability for the occurrence of a certain event is through the use of a number of measurable variables that work as leading indicators. For example, high inflation and low economic growth (independent variables) might indicate an increased probability of political violence (dependent variable). Thus, regression analysis relies on historical relationships between the dependent and independent variables.

A number of studies have shown how ineffective quantitative techniques are, particularly in relation to the prediction of risk. Cosset and Roy [1991] attempted to replicate Euromoney's and Institutional Investor's proprietary country risk ratings using the authors' own models which incorporated a number of political risk and macroeconomic variables. They found that all three models predicted similar outcomes. Consequently the study concluded that both magazines' country risk ratings could be replicated to a significant extent by a relatively small number of published economic statistics. Eichengreen et al. [1995] investigated the causes and consequences of episodes of turbulence in foreign exchange markets over a 34 year period.

They found that although a few variables were correlated with speculative attacks, there were no clear early warning signals of currency crises. Oetzel et al [2001] examined 11 widely used measures of country risk across 17 countries during a 19 year time period. The results of their empirical analysis indicated that commercial risk measures were very poor at predicting actual realised risks. These are important results because they call into question the value of allegedly sophisticated quantitative techniques. Moreover they also raise questions about how sophisticated they really are if their predictive powers are shown to be seriously deficient.

### **2.3. Internationalisation and the use of PRA techniques**

A review of the empirical studies of PRA indicates that, although qualitative techniques are subjective and vulnerable to the bias and errors of the analyst, international firms tend to use such techniques more often than their quantitative counterparts. Such a tendency has been reported in the context of Canadian firms [Rice, Mahmoud 1990], UK firms [Wyper 1995], Dutch firms [Pahud De Mortanges, Allers 1996], Turkish firms [Demirbag, Gunes 2000] and Swedish firms [Kettis 2004]. However, there would seem to have been little effort made to explain this tendency by the aforementioned studies. Therefore, an explanatory effort is required in order to shed some light on why international firms tend not to use quantitative techniques even though these are available to them. Of course this may be due in part to the deficiencies of such techniques, which were referred to above.

There is no official proxy for a firm's degree of internationalisation. As a consequence, the classifications used in this research are adapted or adopted from earlier, related studies. The first variable is the number of years in international business [Rice, Mahmoud 1990; Wyper 1995; Pahud de Mortanges, Allers 1996; Keillor, Boller, Ferrell 1997; Keillor, Wilkinson, Owens 2005; Oetzel 2005]. The second variable is the percentage of revenue generated by international business activities [Hashmi, Baker 1998; Kobrin 1982; Rice, Mahmoud 1990; Pahud de Mortanges, Allers 1996]. The third variable is the number of countries in which a firm operates [Blank et al., 1980; Kobrin 1982; Rice, Mahmoud 1990].

## **3. Methodology**

### **3.1. The sample**

The sampling frame used for identifying international firms was the Jordanian Shareholding Companies' Guide/Amman Stock Exchange<sup>3</sup>. This guide provides an official database of most Jordanian registered shareholding firms with regard to their

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<sup>3</sup> The Jordanian Shareholding Companies' Guide for the year 2003 was the latest available version at the time of the classification of firms.

total assets, number of employees, industry categories and ownership. A self-report questionnaire was delivered to all 79 Jordanian firms which were indentified as operating internationally. The rationale for the census approach was to ensure that the sample was representative and not biased.

Three out of the 79 firms were not contactable. The questionnaires were then delivered by hand to the general managers of the other 76 firms. Two out of these 76 respondents were ineligible (ie they did not meet the research criteria). A total of 44 questionnaires were returned, of which one was unusable. According to the Neuman (2000) formula, the total response rate was therefore 57.14 percent. Such a positive response rate is an indication of management interest in the topic. The Chi-square test was used to test for bias in the sample but no statistically significant differences between respondents and non-respondents were found and it was concluded that the sample was representative of the population, on the basis of size and industry category, and that the findings therefore could be generalised to the entire population.

To ensure the homogeneity of the sample, only the company headquarters were included, and not subsidiaries, divisions and plants. The questionnaires were directed specifically towards general managers. Locating the person who is responsible for assessing political risk is not an easy task since the risk manager might not be the person who is actually involved in political risk management [Hood, Nawaz 2004]. In addition, there might well be multiple centres of political risk assessment (PRA) in a single firm and/or the responsibility for assessing political risk may be assigned informally within the organisation. Moreover general managers are, according to Kwon and Konopa [1993], Pahud De Mortanges and Allers [1996] and Oetzel [2005], more capable of commenting accurately on their firms' approaches to PRA than company chairpersons.

The total assets and employees for the population of Jordanian international firms are shown in tab. 1.

**Table 1.** A firm's size in terms of total assets and number of employees

Size	Valid N = 75 firms				
	Minimum	Maximum	<i>Mean</i>	<i>Median</i>	<i>SD</i>
• Assets (US \$ million)	7.466	20,513.857	483.13	29.013	2,382.321
• Employees	68	6195	517.7	213	941.68

Source: Analysis of data obtained from: Jordanian Shareholding Companies' Guide / Amman Stock Exchange; the Jordanian Export Development and Commercial Centres Corporation (JEDCO); published data (i.e. web sites, annual reports) of many firms on a firm-by-firm basis. *N* = 75 because four firms had not published the required data.

The analysis of the characteristics of responding firms serves two purposes: firstly, to find out whether the responding firms are representative of the population of Jordanian international firms and, secondly, to explain in some detail concepts frequently used in the analysis.

### 3.2. Data collection

Two data collection methods were used: a self-administered questionnaire and a semi-structured survey. A multi-method approach was adopted for two reasons. First of all, it was anticipated that the identification of the political risk assessment techniques which were in use in Jordanian international firms could be accomplished via a questionnaire; while the understanding of the rationale behind the use of such techniques might require personal interaction with managers [Hair et al. 2003]. Secondly, a multi-method approach to data collection enabled the triangulation of managers' responses to take place [Leedy, Ormrod 2001]. Consequently, both questionnaires and interviews were used in this research.

Respondents to the questionnaires were presented with a list of six literature-derived assessment techniques and required to indicate whether they used these techniques and the degree of success of each technique used. Success can be assessed via objective or subjective measures. In line with the studies of Hashmi and Baker [1988], Rice and Mahmoud [1990] and Demirbag and Gunes [2000], 'success' was defined as a manager's self evaluation of the utility of a particular technique. A four-point rating scale was provided to the respondents: 0 stood for 'not used', 1 for 'used with no success', 2 for 'used with a moderate degree of success' and 3 for 'used with a great deal of success'.

Semi-structured interviews were used as a means of elaborating on the findings from the questionnaire. The interviews, which generally lasted from 60 to 90 minutes, were used to explore why particular techniques were used [Wass, Wells 1994]. The sample for interviews ( $n = 10$ ) was drawn from the respondents to the questionnaires ( $n = 44$ ), rather than from the target population as a whole ( $n = 74$ ), since it was considered that firms which had refused to respond to the questionnaire would be unlikely to agree to extensive personal interviews. The rationale for targeting 10 firms was two fold. First of all the semi structured interviews were used to explore and explain themes which emerged from the use of the questionnaire. Therefore there was no need to analyse the qualitative data statistically. Secondly the sample size was in line with earlier political risk studies (eg. [Tsai, Su 2005; Oetzel 2005]).

### 3.3. Data analysis

Non-parametric statistics were used for the following reasons: a) the outputs of the Normal Quantiles-Quantiles chart (Q-Q chart plots), which test many of the research variables indicated that the distribution in question was significantly different from a normal distribution (i.e. the distribution was non-normal); b) non-parametric tests are more appropriate when dealing with a 'small' sample size [Leedy, Ormrod 2001]; c) non-parametric tests are appropriate when dealing with ordinal scale data such as those relating to size and internationalisation because the magnitudes or differences between the rating categories are not known, even though the distances between

the scale categories theoretically are supposed to be equal [Siegel, Castellan 1988]. Consequently, three major categories of statistical techniques for analysing data were used: descriptive; inferential and differences; correlational.

## 4. Results

### 4.1. Characteristics of Jordanian international firms

There is no official classification of international firms by size in Jordan. Therefore, firms were grouped, based on their total assets (\$million) and number of employees, into three numerically equal categories – a trichotomous method. Small-sized firms included firms with total assets of below US \$ 17.3 million and less than 186 employees, while medium-sized firms held assets of US \$ 17.4 to 45.6 million and had 187 to 312 employees (tab. 2).

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

Allocating the responding firms by total assets in US \$ million revealed that 14 out of 43 firms (32.6%) were small-sized, 15 firms (34.8%) were medium-sized and 14 firms (32.6%) were large-sized. Allocating the responding firms by number of employees revealed that nine out of 43 firms (20.9%) were small-sized, 15 firms (34.9%) were medium-sized and 19 firms (44.2%) were large-sized.

A firm's degree of internationalisation was measured using three indicators derived from the literature review: number of years in international business, percentage of international revenues and number of operating countries. Table 3 shows the distribution of firms according to each of these indicators. Allocating the responding firms to a firm's number of years in international business reveals that 15 out of 43 firms (34.9%) were low-internationalised, 17 firms (39.5%) were medium-internationalised and 11 firms (25.6%) were high-internationalised. Allocating the responding firms according to a firm's percentage of international revenue reveals that 17 out of 43 firms (39.5%) were low-internationalised, 10 firms (23.3%) were medium-internationalised and 16 firms (37.2%) were high-internationalised. Allocating the responding firms according to a firm's number of operating countries reveals that 20 out of 43 firms (46.5%) were low-internationalised, 9 firms (20.9%) were medium-internationalised and 14 firms (32.6%) were high-internationalised and operated in more than 11 countries.

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

Indicators of internationalisation	Degree of internationalisation		
	Low	Medium	High
• Number of years in international business (YEARS)	≤ 10 years	11-25 years	≥ 26 years
• Number of firms	15	17	11
• Revenue generated by international business activities (REVENUE)	≤ 10.0%	11.0 %-25.0%	≥ 26.0%
• Number of firms	17	10	16
• Number of countries in which a firm operates (COUNTRY)	≤ 5	6-10	≥ 11
• Number of firms	20	9	14

Firms were categorised into three main sectors: industrial, banking and service. Due to the sample size, further disaggregation was not possible. Allocating the responding firms according to industry category classification reveals that 20 out of 43 firms (46.5%) were industrial, 12 firms (27.9%) were banks and 11 firms (25.6%) were services.

Finally, the firms were categorised according to their ownership. 31 out of 43 firms (72.1%) were owned by private individuals or other firms and 12 firms (27.9%) were owned by the Jordanian government.

#### 4.2. Use and success of political risk assessment techniques

The findings are presented in Table 4. Qualitative techniques were used much more extensively than quantitative techniques. Judgement of manager was used by 76.3% of respondents, scenario development by 38.9%, expert opinion by 23.7%, standardised checklist by 18.4%, quantitative techniques by 10.8 % and Delphi Technique by 7.9%. The judgement of manager technique had the first highest percentage self-reported success (55.3%), scenario development was second (22.2%), expert opinion was third (18.4%), quantitative techniques was fourth (10.8%), standardised checklist was fifth (10.5%) and Delphi technique was last (7.8%).

The interview data was used to confirm and explain the findings from the questionnaires. Most interviewees said that they were likely to rely on one or more qualitative technique. The flexibility of scenario techniques made them popular with Jordanian interviewees. For example, a general manager of a service firm commented that ‘one can make any scenario and take into account all potential situations’. Three main explanations were given to explain why qualitative techniques were used more often than quantitative techniques. The first reason is that qualitative techniques are simple; no ‘statistical background’ is required. The second reason is that qualitative techniques are ‘quicker’ where the ‘environment is changing rapidly’.

**Table 4.** Use and success of political risk assessment techniques

Assessment techniques:	Use			Success <sup>a</sup>		
	N	%	Valid N	N	%	Valid N
• Judgement of manager	29	76.3	38	21	55.3	38
• Scenario development	14	38.9	36	8	22.2	36
• Expert opinion	9	23.7	38	7	18.4	38
• Standardised checklist	7	18.4	38	4	10.5	38
• Delphi technique	3	7.9	38	3	7.8	38
• Quantitative techniques	4	10.8	37	4	10.8	37
• Other techniques	1	–	–	1	–	–

<sup>a</sup> – Percentage of firms that score 2 ‘used with moderate success’ and 3 ‘used with a great deal of success’; details add up to more than 100 percent because of duplicate responses.

Source: analysis of questionnaire data.

The third reason is that qualitative techniques are ‘*less expensive*’ than quantitative techniques, since qualitative techniques do not require the gathering of historical information or a knowledge of statistical techniques or computers.

### 4.3. Relationship with firm specific characteristics

The dominant use of qualitative techniques by respondents was not significantly related to any of the firm-specific characteristics. Similarly, the use of quantitative techniques by respondents was not significantly related to any of the firm-specific characteristics.

**Table 5.** Use of quantitative techniques and a firm’s size and internationalisation (median compared)

Characteristics	Valid N = 37 firms		
	Not used (N = 33)	Used (N = 4)	Total median
• SIZE (Assets in US \$ m)	20.729	561.946	26.045
• YEARS	14	25	17
• REVENUE (%)	20.0	27.5	20.0
• COUNTRY	6	11.5	7

Source: analysis of questionnaire data.

However, it is possible that the Jordanian firms which do utilise quantitative techniques have different characteristics from those firms that do not use such techniques. Unfortunately, the number of respondents to the questionnaires who used quantitative techniques was not large enough to reveal significant correlations.

Therefore, instead of using Chi-square statistics to make a comparison between firms that used quantitative techniques and firms that did not, the medians were calculated. As can be seen from Table 5, firms using quantitative techniques were larger in size (median US \$ 561.946 million versus US \$ 20.729 million), had more YEARS in international business (median 25 versus 14), generated higher REVENUE from international business activities: (median 27.5% versus 20.0%) and had facilities in more COUNTRY (median 11.5 versus 6).

## 5. Discussion

The most frequently used technique within Jordanian firms was the judgement and intuition of managers (76.3 percent of the total). In the case of Canadian firms the technique was used by 79.0 percent of firms [Rice, Mahmoud 1990] and in the case of Dutch firms by 96.0 percent of firms [Pahud De Mortanges, Allers 1996]. Judgement and intuition of managers, on the other hand, was the second most commonly used technique (63.9 percent of the total) within US firms [Subramanian, Motwani, Ishak 1993] and was also used commonly within Swedish firms [Kettis 2004]. This qualitative technique also had the highest percentage of self-reported success by Jordanian respondents relative to other techniques; the 'most useful' for US respondents [Hashmi, Baker 1988]; the 'most successful' for Canadian respondents [Rice, Mahmoud 1990] and the 'most positive' for Turkish respondents [Demirbag, Gunes, 2000]. These findings suggest that international firms, including those in Jordan, are generally satisfied with relying on the judgement and intuition of managers for assessing political risk.

The second most frequently used technique within Jordanian firms was scenario development. The percentage of Jordanian respondents who utilised this technique (38.9 percent) matches the percentage (38.0) found in the context of US firms [Subramanian, Motwani, Ishak 1993] but is higher than those percentages reported in the context of Canadian firms: [Rice, Mahmoud 1990] or Dutch firms: 9.0 percent [Pahud De Mortanges, Allers 1996]. Scenario development also had the second 'highest' percentage self-reported success by Jordanian respondents but the fourth 'most successful' by Canadian respondents [Rice, Mahmoud 1990].

The third most frequently used technique within Jordanian firms was 'expert opinion'. Expert opinion was the most commonly used technique within US firms [Subramanian, Motwani, Ishak 1993] and the second most commonly used technique within Dutch firms [Pahud De Mortanges, Allers 1996]. This technique also had the third highest percentage self-reported success by Jordanian respondents but the second 'most useful' by US respondents [Hashmi, Baker 1988], the second 'most successful' by Canadian respondents [Rice, Mahmoud 1990] and the second most 'positive' by Turkish respondents [Demirbag, Gunes 2000]. These findings suggest that international firms are generally satisfied with this technique for assessing political risk.

The other two qualitative techniques were used by a minority of respondents: 18.4 percent used a standardised checklist and 7.9 percent used the Delphi technique. Like Jordanian respondents, US respondents [Hashmi, Baker 1988], Canadian respondents [Rice, Mahmoud 1990] and Dutch respondents [Pahud De Mortanges, Allers 1996] used these two techniques less frequently than others. In terms of the mean of percentage reported success, standardised checklist and Delphi technique were considered the least successful among qualitative techniques within US firms [Hashmi, Baker 1988], Canadian firms [Rice, Mahmoud 1990], Turkish firms [Demirbag, Gunes 2000] and Jordanian firms.

Quantitative techniques were used by only 10.8 percent of Jordanian respondents. Like Jordanian respondents, Canadian respondents [Rice, Mahmoud 1990], US respondents [Subramanian, Motwani, Ishak 1993], UK respondents [Wyper 1995], Dutch respondents [Pahud De Mortanges, Allers 1996], Turkish respondents [Demirbag, Gunes 2000] and Swedish respondents (Kettis, 2004) used qualitative techniques more often than quantitative techniques. In terms of the mean of percentage reported success, quantitative techniques were considered the least successful by Canadian firms [Rice, Mahmoud 1990] and Jordanian firms.

Three possible reasons can explain why Jordanian firms refrain from the extensive use of quantitative techniques. Firstly, as in other countries, the use of quantitative techniques requires particular data that lend themselves to statistical manipulation. Suitable data may not be readily available. Furthermore, data, if available, tend to be in the wrong format because such data are collected for purposes other than political risk assessment [Brink 2004]. Secondly, the collection of political data can be a difficult process in Jordan because the secondary sources of information (e.g. newspapers, television and census) are censored; so the presentation of related political events is not unbiased [*Middle East Monitor: East Med ...* 2008]. Thirdly, the use of quantitative techniques requires statistical and information processing expertise. In addition, interpreting results needs particular skills [Kettis 2004]. The first and third of these findings also apply to other geographical contexts. However, the second one is only of relevance in particular countries/regions.

The finding that firms using quantitative techniques were larger in size, had more years in international business, generated higher revenue from international business activities and had facilities in more countries is in line with that of Hashmi and Baker [1988] who found that high-internationalised US firms (firms with  $\geq 20.0$  percent of their sales generated by international operations) were more likely to utilise quantitative techniques than low-internationalised firms since the former had more resources to use such techniques.

## 6. Conclusions and implications

Quantitative techniques were used by only a minority of respondents. The extensive reliance on qualitative techniques is interesting since one might expect that firms with a high degree of internationalisation or firms which operate in politically vola-

tile regions would use more sophisticated techniques for political risk assessment [Hood 2001].

Three obstacles face Jordanian international firms in assessing political risk using quantitative techniques. These are lack of suitable data, the unreliability of even apparently suitable data due to political censorship and a shortage of data processing skills. The second of these is the most interesting finding.

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

Since firms tend to rely mainly on qualitative techniques, the attraction of using their quantitative counterparts, which can be found in their potential for providing detailed assessment, has not been realised. This does not imply, however, that qualitative techniques of PRA are inherently inferior to quantitative ones. Such a view (eg. [Waring 1996]) is unwarranted and is based on a failure to recognise that all political risk assessments are inherently value-laden. Political risk assessment is carried out by humans whose rationality has limits, especially when operating under uncertain conditions [Brink 2004]. Therefore, both approaches are vulnerable to being affected by ideologies, power relations, motivations and attitudes [Plous 1993].

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## WYKORZYSTANIE METOD OCENY RYZYKA POLITYCZNEGO W JORDAŃSKICH FIRMACH MIĘDZYNARODOWYCH

**Streszczenie:** Celem artykułu było opisanie i wyjaśnienie technik stosowania oceny ryzyka politycznego na przykładzie jordańskich międzynarodowych przedsiębiorstw. Badanie identyfikuje ważne zastosowanie technik jakościowych ze względu na ich elastyczność, prostotę i niski koszt. Techniki ilościowe były wykorzystywane przez mniejszość respondentów. W każdym przypadku w jordańskich międzynarodowych firmach uważa się, że oficjalne dane są poddawane cenzurze i z tego względu nie są wiarygodne. Podważa to efektywne wykorzystanie zaawansowanych technik ilościowych.